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TIW

We are **Delivering**

1998 Annual Report

1998 Milestones

Western Europe *ESMR*

TIW laid the foundation for the commercial launch of ESMR (Enhanced Specialized Mobile Radio) services across Western Europe, a unique opportunity driven by its subsidiary, Dolphin Telecom plc (Dolphin). Its strategic base of mobile radio subscribers, market coverage and licensed population are difficult to replicate.

Dolphin will provide a package of integrated mobile business communications services through a seamless, pan-European digital network beginning with the three largest markets—the United Kingdom and France in 1999, followed by Germany in 2000.

Romania *Cellular*

TIW's subsidiary, MobiFon S.A. (MobiFon), maintained subscriber growth momentum throughout the year, confirming its status as one of the most successful cellular operators in Eastern Europe.

MobiFon achieved positive earnings before interest, taxes, depreciation and amortization (EBITDA) in its first full year of operations and obtained funding for completing the buildout of its digital network and extending its license to 15 years. CONNEX, MobiFon's branded service, became a household name in Romania, with recognition approaching well-known global brands in the fast-food, soft drink and clothing industries.

Brazil *Cellular*

TIW became one of two international cellular operators to establish a presence in four regions of Brazil, the largest economy in Latin America and the world's fifth most populous country.

TIW's most significant move was the acquisition of the incumbent cellular operators in the State of Minas Gerais and the Northern Brazil region, completed in mid-year with local financial partners. TIW obtained a new license in the State of Rio Grande do Sul as part of another consortium and successfully pursued the commercial deployment of digital cellular services in the Center-West region. Positive combined EBITDA, a customer base of 828,000 subscribers and operating synergies provide a strong platform for future growth.

Asia *Cellular*

TIW's investees in China and India aligned operations with expectations of near-term subscriber growth. TIW is positioned for long-term opportunities under more favourable market and regulatory conditions in both countries, and continues to explore other Asian markets to extend its reach.

Telesystem International Wireless Inc. (TIW) is a global wireless telecommunications operator, with operations in Europe, Latin America and Asia.

TIW has established three strong geographic platforms for growth—Western Europe in integrated mobile business communications services and Brazil and Romania in digital cellular services—resulting in a distinctive strategic profile in the global wireless industry.

TIW is the largest provider of specialized mobile radio (SMR) services in Western Europe in terms of subscribers, market coverage and licensed population. In cellular services, it is among the top four operators in Brazil and the market leader in Romania. TIW also provides cellular services in China and India, as well as nationwide paging services in Mexico and The Netherlands.

TIW's success is driven by the calibre of its people, access to capital markets and the contribution of partners. In addition, the Company benefits from the wealth of expertise of its founding shareholder, Telesystem Ltd., the largest privately-held communications group in Canada.

A Canadian company, TIW was created in 1992 to seize global wireless opportunities outside Canada and the United States. At the end of 1998, total subscribers to the Company's three services numbered 1,557,000, total licensed population stood at 515 million, and TIW and its operations employed 6,400 people.

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Operational

In Western Europe, TIW's subsidiary, Dolphin began the countdown towards the launch of ESMR services in the United Kingdom. By the end of 1998, most of the required transmission sites were deployed and the network management center and information systems for billing and customer service were in place.

In Brazil, TIW's investee, Americel S.A. (Americel), achieved a successful start-up of digital cellular services in the Center-West region of Brazil, with over 161,000 subscribers at the end of 1998. Another investee, Telet S.A. (Telet), completed preparations and launched commercial services in the State of Rio Grande do Sul in February 1999. Both companies obtained local currency financing to build their networks. In addition, TIW and a group of financial partners acquired effective voting control of two established cellular operators: Telemig Celular Participações S.A. (Telemig) and Tele Norte Celular Participações S.A. (Tele Norte). In Romania, TIW's subsidiary, MobiFon, achieved one of the highest net subscriber additions among cellular operators in Eastern Europe.

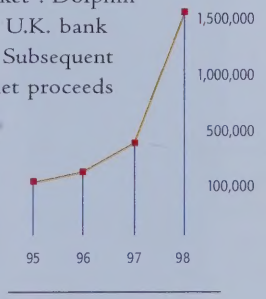
Highlights

2

Financial

Cellular operations achieved positive EBITDA on a consolidated and a proportionate basis. Consolidated revenues increased to $391 million from $71 million in 1997.*

TIW completed a public offering of Subordinate Voting Shares for net proceeds of $169 million in conjunction with a listing on the Nasdaq Stock Market®. Dolphin raised over $650 million through a Senior Discount Notes issue and a U.K. bank facility, as well as obtained significant vendor financing commitments. Subsequent to the end of the year, TIW issued Equity Subordinate Debentures for net proceeds of $95 million.



Growth in
Total Subscribers

3

Organizational

Dolphin built a solid team to lead the deployment of its pan-European mobile business communications network. The management group includes seasoned executives with strong backgrounds and proven track records in wireless telecommunications and information technology services.

TIW began the integration process of its Brazilian operations by placing Telemig and Tele Norte under a common management team.

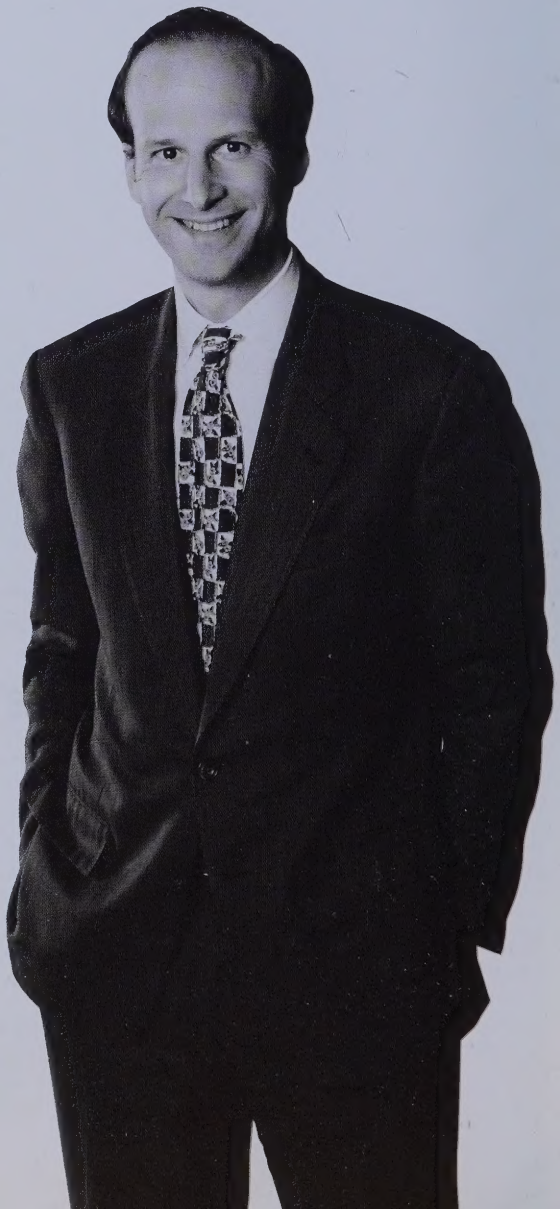
* All references to "dollars" and "$" refer to U.S. dollars, unless otherwise expressly stated.

Message to Shareholders

We are proud to report that TIW met and surpassed all of its key objectives in 1998. In our second year as a public company, we achieved superior operating results—exceeding our own very demanding targets—while effectively applying our know-how to position TIW as a globally recognized force in the wireless telecommunications industry.

We delivered tremendous growth by rapidly converting our licenses into subscribers and EBITDA, complemented by strategic acquisitions. What's more, we established a unique position for building significant businesses and shareholder value, with strong clusters in Western Europe and Brazil, and a high-value operation in Romania.

Charles Sirois
Chairman of the Board



Bruno Ducharme
President and Chief Executive Officer

Compelling Achievements

In a year of many highlights, the most compelling accomplishment was our leap to over 1.5 million total subscribers from 400,000 at the end of the previous year. Reflecting this growth, consolidated revenues increased to $391 million from $71 million in 1997.

At the beginning of 1998, we said our focus in cellular operations would be on growing our subscriber base in Romania and Brazil. We have delivered more than one million new cellular subscribers through acquisitions and internal growth to exceed 1.1 million at the end of 1998, compared to 133,000 in these two countries in 1997.

Another objective was to achieve positive EBITDA in cellular and specialized mobile radio (SMR) operations. We have delivered on this objective as well, with consolidated EBITDA of $41 million, compared to a negative EBITDA of $68 million in the previous year.

TIW ended the year a much larger company in terms of market positions, assets and employees. Our operations employed 6,400 people at the end of 1998, more than double the number at the start of the year.

"We delivered tremendous growth by rapidly converting our licenses into subscribers and EBITDA, complemented by strategic acquisitions."

Unique European Opportunity Our vision of a seamless pan-European digital wireless network for integrated mobile business communications took concrete shape in 1998. Through strategic acquisitions of SMR operations, we built a powerful platform of licenses and subscribers in Western Europe, attracted financing and started building the infrastructure for ESMR services. This exciting initiative is spearheaded by the strong and experienced management team of our subsidiary, Dolphin, based in the United Kingdom.

In 1998, Dolphin consolidated its leadership in the U.K., France and Spain, and entered Belgium and Portugal as the market leader. The analog subscriber base increased to over 200,000 from approximately 50,000 in the previous year. Subsequent to the end of 1998, Dolphin became the largest and only national SMR operator in Germany, adding 98,000 subscribers through the acquisition of two SMR operators. Dolphin has secured the only ESMR licenses in the U.K., France and Belgium. A controlling position in such a critical mass of subscribers and licenses across Western Europe cannot easily be replicated, placing Dolphin in a unique competitive position.

Dolphin will provide a range of integrated mobile business communications services tailored for mobile work forces, a large market on a European scale. For these users, the advanced features of ESMR, such as instant connection, digital cellular services, pan-European networking, packet data transmission and Virtual Private Networks—all in a single handset—translate into greater efficiency and competitive advantage.

The capital markets have supported Dolphin, allowing for the full funding of the ESMR network in the U.K. Both Nokia and Motorola, global leaders in the wireless industry, have endorsed our vision through strong technical and financial commitments to TETRA, the European standard for ESMR services. Dolphin is on track to launch commercial services in the U.K. and France in 1999, followed by Germany in 2000.

Global Cellular Operator TIW emerged from 1998 as a global cellular operator. In Brazil, we established a growth cluster while our Romanian subsidiary emerged as one of the most successful cellular start-ups. Total cellular subscribers rose to over 1.1 million from 143,000 at the end of 1997.

ROMANIA

The momentum of its highly successful commercial launch in the previous year propelled MobiFon, our subsidiary in Romania, to exceptional performance and market leadership in 1998. The number of subscribers reached 325,000 at year-end, only 20 months after launch, and positive EBITDA was generated in the first full year of operations. With these impressive accomplishments and excellence in other performance measures, MobiFon has gained recognition as one of the world's most successful cellular start-ups while becoming a showcase for TIW's operational leadership and ability to create shareholder value. As a result of its commercial success, MobiFon secured financing on attractive terms to fully complete its network buildout despite unsettled conditions in global capital markets.

"MobiFon has gained recognition as one of the world's most successful cellular start-ups."

BRAZIL

In Brazil, one of the world's most populous countries, TIW now ranks among the top four cellular operators, the culmination of a strategic commitment made in 1994. Research projects 31 million subscribers to mobile telecommunications in 2004, for a penetration of 16%, compared to 3% in 1997. This makes Brazil one of the most promising telecommunications markets in the world.

From 16,000 subscribers in Brazil at the end of 1997, we have swiftly established a solid base for growth with 828,000 subscribers, positive combined EBITDA and licenses in four regions. Investments in two established cellular operators complemented our two start-up companies, one of which reached over 161,000 subscribers at the end of 1998, just 13 months after launch. Commercial services were introduced in February 1999 by the second start-up company, after it had secured term financing for the initial phase of its network buildout.

With our Brazilian footprint, we will achieve operating and financial synergies to fund subscriber growth and network investments. This solid base will enable TIW and its partners to create significant shareholder value over the coming years.

ASIA

In both India and China, we have scaled our investments to subscriber demand while taking a long-term approach to market development. Despite low subscriber numbers, both operations were near EBITDA break-even, before license fees.

1999 Objectives and Challenges TIW entered 1999 with a distinctive strategic profile, based on stand-alone operations: Dolphin in Western Europe and digital cellular operations in Brazil and Romania. Each operation is positioned for significant growth and value creation.

ESMR

Dolphin's objective is to successfully introduce ESMR services, beginning with the nationwide U.K. launch in the second quarter of 1999. Commercial services will begin in France by the end of 1999 and Germany in 2000, allowing for seamless communications between the three countries.

CELLULAR

Against a backdrop of uncertain economic conditions, our focus in Brazil will be to build quality operations from the strong base established in 1998. In Romania, the objective is to leverage MobiFon's leadership position to achieve superior financial performance.

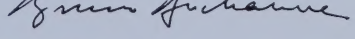
Dolphin, our Brazilian investees and MobiFon will command much of our attention in 1999. We will achieve our objectives by continuing to exercise sound business judgment, while relying on our demonstrated ability to manage risk. TIW's team will also remain alert for excellent opportunities in new services and technology in growing wireless markets.

Acknowledgments The strategic transformation of TIW in 1998 into a proven global cellular operator and pan-European leader in digital wireless business communications resulted from the pursuit of a clear vision and effective execution. These achievements testify to the strength of leadership throughout the organization, as well as to the imagination, know-how and tireless energy of our employees.

We acknowledge their dedication and also thank the members of our Board of Directors for their counsel and support in an extremely active year. In particular, we extend our appreciation to Jean-Jacques Bertrand, who stepped down in 1998, and Richard J. Brekka, who will not be seeking re-election to the Board at the next annual meeting. Both have contributed, as directors, to our rapid progress since the inception of TIW.

We look forward to continuing progress and more excitement in 1999.

Charles Sirois
CHAIRMAN OF THE BOARD



Bruno Ducharme
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Western Europe *ESMR*

Dolphin is the undisputed European leader in SMR services, in terms of subscribers, coverage and population under license. As the only multi-market mobile operator with ownership control in all its markets, Dolphin is positioned to build the first seamless pan-European digital mobile business communications network.

Digital Launch

ESMR services will be launched commercially in the United Kingdom and France in 1999, followed by Germany in 2000. ESMR services target a significant market segment of mobile work forces and business users, confirmed by research at 21 million people in these three countries alone.

Financing has been secured for the full funding of the U.K. network and the initial buildouts in France and Germany, reflecting capital market support for Dolphin's strategy. Its vision of integrated pan-European ESMR services has been endorsed by Nokia and Motorola, global leaders in mobile communications, through their significant technical and financial commitments to TETRA and Dolphin.

Dolphin's subscribers

Solid Base for Growth

Dolphin accelerated the consolidation of the SMR industry in Europe in 1998 with a series of acquisitions in six countries. From its existing base, Dolphin established leadership positions in the U.K., France and Spain. It also entered Belgium and Portugal as the market leader. Through these transactions, Dolphin aggregated over 200,000 analog subscribers compared to some 50,000 at the end of 1997. Combined with an increase in ownership to 100% in its German subsidiary, the acquisitions of Chekker ProRegio Bundelfunk GmbH & Co. Deutschland KG and Quickfunk GmbH in the first quarter of 1999 added 98,000 analog subscribers and market leadership in Germany.

Dolphin also became the only SMR operator with digital licenses and spectrum in the U.K., France, and Belgium. With these licenses and a critical mass of approximately 300,000 analog subscribers, the company has a solid platform for launching ESMR services.

Digital Launch on Track While executing its market consolidation strategy, Dolphin laid the groundwork for the commercial launch of ESMR services and secured the financial underpinning for their deployment. Initial commercial services will begin in the U.K. in the second quarter of 1999, followed by full national services in the third quarter.

United Kingdom

The planning and acquisition of U.K. transmission sites was almost completed by the end of 1998, with approximately 400 sites acquired and nearly 300 built. Some 450 sites are required to achieve Dolphin's objective of 90% population coverage by June 1999.

A contract was signed with Nokia for the U.K. network infrastructure, including base stations, switches, the network management system and an initial supply of 40,000 handsets.

Germany

The design of the German nationwide network began in early 1999 and initial commercial services will be introduced in 2000. Motorola has been awarded a contract for the infrastructure equipment and digital deployment.

Dolphin's objective is to quickly achieve 90% population coverage in its core markets comprised of the U.K., France and Germany, the largest markets in Western Europe.

France

In France, site planning and acquisition were recently accelerated following the signing of a contract with Nokia for the infrastructure equipment. The commercial regional service launch is planned over the course of 1999. Dolphin has secured a national digital license and sufficient spectrum to deliver its business plan.

Belgium, Portugal and Spain

Once service is established in Dolphin's three major markets, the company will focus on implementing digital services in Belgium, Portugal and Spain.

Dolphin accepted the initial version of its customer care and billing system in December. The system, which will be operational for the U.K. launch, allows flexible and innovative pricing structures. Its modular architecture can support the expansion of the digital network into other countries. Among the key competitive advantages of Dolphin's seamless pan-European network will be pricing flexibility for roaming and international long distance services.

Motorola has made a commitment to ESMR by signing a contract for 150,000 handsets to be supplied starting in the second half of 1999. In the first quarter of 1999, Dolphin also awarded a contract to Motorola for 400,000 second generation handsets, to be supplied starting in the second half of 2000.

Financing Secured Reflecting the confidence of capital markets, Dolphin has secured full funding for the U.K. network on a project basis until the expected EBITDA break-even in 2001. A large portion of financing has also been obtained for the France and Germany buildout.

In the U.K., financing is comprised of a portion of the net proceeds of $290 million from the issuance of Senior Discount Notes by Dolphin and a $355 million senior term bank financing.

Dolphin has also obtained a vendor facilitated $120 million debt financing commitment for the deployment of the ESMR network in France, and associated working capital requirements. This provides sufficient liquidity to fund the first phase of the infrastructure investment in this country until the second quarter of 2000.

In the first quarter of 1999, the company obtained financing commitments from Motorola and third parties of up to $575 million to fund the network buildout and associated working capital requirements in Germany. This represents Motorola's largest financial commitment to date with regards to ESMR services in Europe.

Dolphin continues to review numerous financing alternatives, including equity, debt and vendor financing to fund the continued buildout of its integrated mobile business communications network in Western Europe.

1999 Objectives

- Dolphin will reinforce its management teams in France and Germany and build an organization in each country to support operational objectives, as it did in the U.K. in 1998.
- Dolphin is focused on achieving a successful commercial launch for its ESMR services in the U.K. and France in 1999. The objective is to provide quality digital services from the start, creating strong momentum for subscriber growth.
- The analog SMR operations and subscribers are important to the successful execution of Dolphin's pan-European strategy. In addition to providing an operating base in each market, they are potential early adopters of ESMR services. The objective in 1999 is to maintain efficient operations and high quality services while achieving positive EBITDA, as in 1998.

Dolphin targets mobile work groups with differentiated services

Integrated Mobile Business Communications

When Dolphin launches commercial ESMR services in the United Kingdom in the second quarter of 1999, it will be offering a truly differentiated and competitive set of features tailored to the specific needs of mobile work groups.

The unique combination of features enables integrated mobile business communications over a single digital network, through a single advanced handset, eventually across Western Europe. No other European network can offer a similar package of functions, services and coverage on a one-stop basis.

Digital Cellular . . . and More

Dolphin's ESMR network will provide all of the current features of digital cellular telephony and SMR services. These include mobile voice services, voice mail and digital value-added services, as well as more advanced functions such as text messaging and high-speed packet data transmission up to 28.8 kb/s.

In addition to these desired services, Dolphin is differentiated by advanced mobile work group functionalities such as instant person-to-person and group access. These features allow, for example, a direct digital connection in less than half a second between a dispatcher and a delivery truck, no matter the distance between them, or an instant conference call among a group of people in remote locations.

Another major advantage of ESMR is that it allows customer-controlled Virtual Private Network (VPN) services. Each VPN can be programmed, on demand and in real time, enabling total control over who is on the network, where users get coverage and which features they can use. As a result, current public and private analog SMR users can migrate to Dolphin's network while retaining essential custom features. Moreover, the cost of the service will be based on how a particular work group uses the network.

"Both Nokia and Motorola have made important technical and financial commitments towards the successful launch of Dolphin's services."

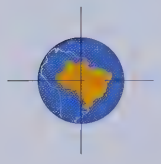
Seamless European Network

As Dolphin's network extends beyond the U.K., users will benefit from the same services on a seamless basis across Western Europe. Its pan-European footprint will allow pricing flexibility for roaming and international long-distance services, a key marketing advantage.

Research confirms a large opportunity for Dolphin, with an estimated mobile work force of 21 million people in the U.K., France and Germany alone. These potential initial customers are mainly in the construction, transportation and manufacturing industries, as well as in public utilities, and trade and service organizations.

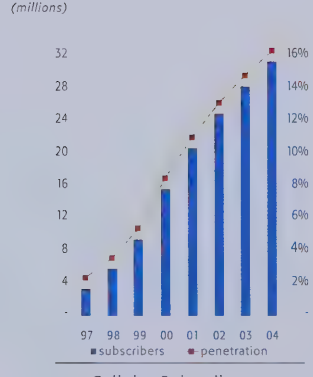
ESMR technology is based on the Terrestrial Trunked Radio (TETRA) integrated voice and data wireless protocol adopted in Europe as the standard for ESMR services. It is actively supported by major wireless equipment manufacturers, including Nokia, Motorola and Simoco. Both Nokia and Motorola have made important technical and financial commitments towards ensuring the successful launch of Dolphin's pan-European integrated mobile business communications network.

Brazil *Cellular*



TIW ranks among the top four cellular operators in Brazil, by far the largest economy in Latin America and among the world's most promising telecommunications markets. With licenses in four regions covering a total population of 52 million, an established base of 828,000 subscribers and positive combined EBITDA, TIW is well positioned to capture a significant share of growth in the Brazilian telecommunications industry.

*A Mega-*market



Cellular Subscribers and Penetration

(Source: Baskerville Communications Corporation)

With approximately 170 million people, Brazil is the world's fifth largest country in terms of population. Its economy is the eighth largest, behind China and ahead of Canada, according to the World Bank.

Relative to GDP, the country has underinvested in telecommunications until recently, resulting in relatively low teledensity. Today, the Brazilian market is among the most dynamic in the world, with research projecting 31 million subscribers to mobile telecommunications services in 2004, for a penetration of 16%, compared to 3% in 1997. Brazil is exhibiting the same high demand for mobile dial-tone that has characterized other Latin markets since the introduction of wireless communications.

Competition Stimulates Growth

The catalyst for growth is the deregulation and privatization of the telecommunications industry. Through a well-planned and orderly process, the Brazilian government has auctioned off new licenses and existing operations to foreign and domestic bidders, stimulating massive investment. After dividing the country into regions, the government first sold new digital cellular licenses in each region, the so-called B-Band licenses. Subsequently, the incumbent cellular operators, the so-called A-Band, were privatized through auction.

By legislating a favourable regulatory environment for telecommunications investments, Brazil created a level playing field and allowed operators pricing flexibility. Combined with the country's vast potential, the pragmatic competitive rules have made Brazil one of the most attractive telecommunications markets in the world.

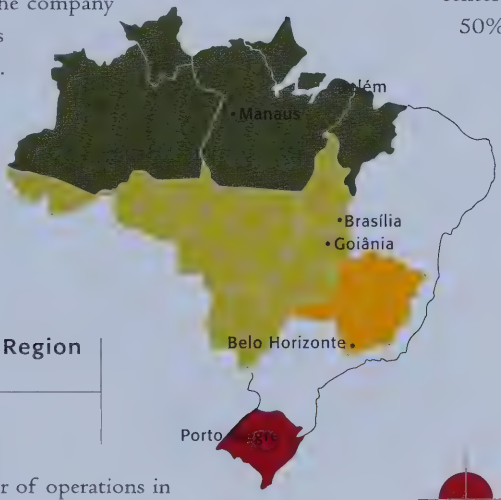
Cluster Strategy TIW has begun to implement a cluster strategy in Brazil through the acquisition of participations in new cellular licenses and existing operations. The Company holds four licenses—two A-Band and two B-Band—in regions with attractive economic fundamentals and high growth potential for cellular services. TIW and leading Brazilian financial institutions exercise control over the two operating companies acquired in July 1998 and placed under a single leadership in December 1998.

A-Band Minas Gerais

Telemig had 448,400 subscribers in the State of Minas Gerais at the end of 1998, making it one of the largest cellular operators in Brazil. During the year, Telemig completed the digitization of its network in Belo Horizonte, the state's major urban center, and has begun to upgrade the rest of its network. The company started operations in 1993 and has achieved 65% population coverage.

A-Band Amazon Region

In Northern Brazil, Tele Norte had 218,600 subscribers at the end of 1998. Although the Amazon region covers a huge territory, the population is concentrated in a few major centers, and the company's network covers 50% of the population. Engineering for the digitization of Tele Norte's network is under way.



B-Band Center-West Region

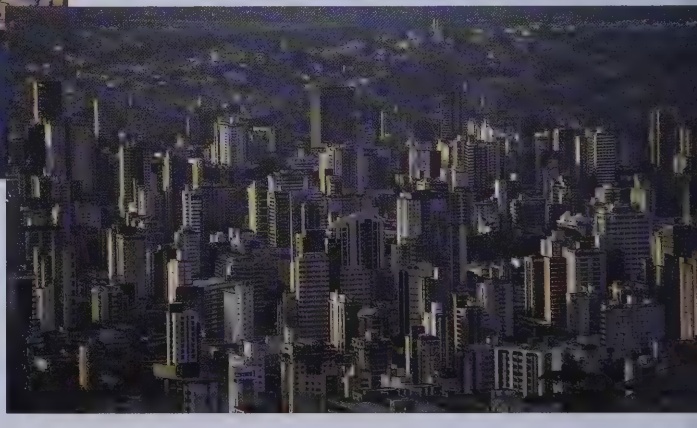
Americel completed its first full year of operations in 1998 with 161,400 cellular subscribers. Commercial services were introduced in December 1997, making it the first B-Band cellular services provider to start operations with digital technology in Brazil. Services were launched initially in Brasília, the federal capital, and extended to other large cities. In December, Americel secured an eight-year term loan facility in local currency to finance equipment manufactured in Brazil for the buildout of its state-of-the-art network.

B-Band Rio Grande do Sul

TIW and its partners in Telet were awarded a B-Band digital cellular license in the second quarter of 1998 for the State of Rio Grande do Sul. Telet concluded a vendor financing agreement in December, paving the way for the commercial launch of digital services in February 1999.

Attractive Regions in a Dynamic Country TIW's Brazilian investees hold licenses which cover 52 million people in four regions. These regions are attractive because of their low teledensity, concentrated urban populations and strong economic activity.

Although located 900 miles inland in the heart of the Amazon rain forest, Manaus is a major inland port reached by oceangoing vessels from the Atlantic. The State capital of Amazonas, it has a population of 1.5 million people.



With a population of nearly 2.5 million, Belo Horizonte is the capital of the State of Minas Gerais, and a growing industrial center with steel, automobile and textile manufacturing.

Northern Brazil

Tele Norte's license in Northern Brazil covers five states—Amazonas, Para, Maranhaõ, Amapá and Roraima. Although the territory is huge, most of the population of 14 million is concentrated in the three large urban centers of Manaus, Belém and São Luis.

Minas Gerais

The State of Minas Gerais is among the most prosperous and highest growth regions of Brazil. With a population of more than 15 million people, the state is endowed with rich mineral deposits and major industries such as metallurgical manufacturing and mining. In automobile production, Minas Gerais ranks among the leading centers in the country and is home to the largest Brazilian plant of the Fiat group of Italy.

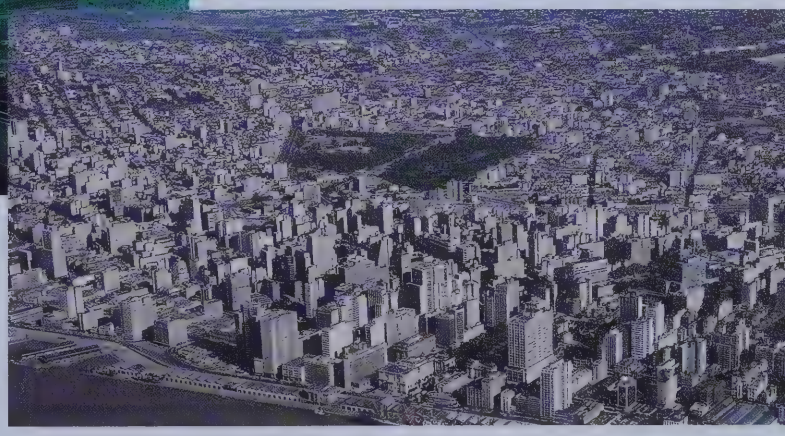
Center-West Region

The six states in the Center-West region of Brazil have a combined population of more than 13 million people. The region includes Brasília, the federal capital of Brazil, and has 13 cities with populations over 100,000, seven of which have populations over 200,000.

Rio Grande do Sul

The State of Rio Grande do Sul, with a population of nearly 10 million inhabitants, has a well-developed economy with a broad industrial and agricultural base. The state is strategically located in the Mercosur trading zone with Argentina, Uruguay and Paraguay. It is one of Brazil's automobile manufacturing centers and has a strong agricultural processing industry.

Brasília was built starting in 1956 and became the federal capital of Brazil in 1960. Its population has since grown to nearly 1.8 million inhabitants.

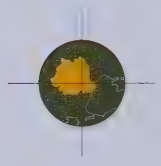


The largest city in southern Brazil, Porto Alegre was founded in 1742. The city is located at the junction of five rivers and has a population of 1.5 million.

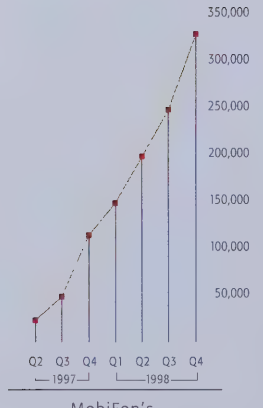
1999 Objectives

Through acquisitions and subscriber growth, TIW's Brazilian operations achieved positive combined EBITDA in 1998. With the prospects of unstable economic conditions in Brazil in 1999, TIW will focus on realizing operating synergies within its cluster while continuing subscriber growth. TIW's key objectives are the consolidation of its Brazilian footprint and positioning for strong subscriber growth when economic conditions improve.

Romania *Cellular*



In less than two years, TIW's subsidiary in Romania has become a recognized world-class operator and one of the most successful cellular start-ups. Through impeccable network and operations planning, deployment and marketing, MobiFon reached 325,300 subscribers at the end of 1998, only 20 months after launch. Reflecting the high quality subscriber base and the relatively low cost of customer acquisition, the subsidiary generated positive EBITDA in its first full year of operations.



MobiFon's Subscriber Growth

Efficient Execution

Recognizing the value of market leadership and brand recognition for the Romanian consumer, MobiFon's strategy was to be the first cellular operator to launch digital commercial services. The company achieved this objective by introducing services within five months of obtaining its license, the fastest GSM network deployment in Europe.

The country's nine major urban centers were covered in the initial network buildout, allowing MobiFon to attract frequent users in the corporate, government and professional markets. By providing reliable, state-of-the-art services from the beginning, including high quality customer care, the company achieved high retention and established its CONNEX brand as the market leader and technological innovator in Romania.

After its early success—117,000 subscribers at the end of 1997, eight months after launch—MobiFon increased its marketing efforts in the consumer segment and introduced pre-paid services. The results exceeded its most optimistic expectations, with the number of subscribers soaring to 325,300 by the end of 1998. This subscriber growth was one of the highest among Eastern European mobile operators.

The GSM network covered 80% of the population and 60% of the territory at December 31, 1998.

Innovative Marketing Marketing innovation, focus on customer service and effective brand development have played key roles in MobiFon's success. The CONNEX name has become a household word in Romania, and the company is perceived as a leading business in the country. A December 1998 national survey indicated that 80% of Romanians recognize the CONNEX brand name, approaching the same level as well-known global brands in the fast-food, soft drink and clothing industries.

MobiFon's television advertisements for CONNEX have achieved recall rates as high as 41%. Advertising is complemented by major sponsorships of cultural and sports events, as well as public relations. For example, in celebration of its first anniversary, MobiFon sponsored the Great Connection, an outdoor concert, which attracted a live audience of 220,000 people and an estimated nine million television viewers.

MobiFon

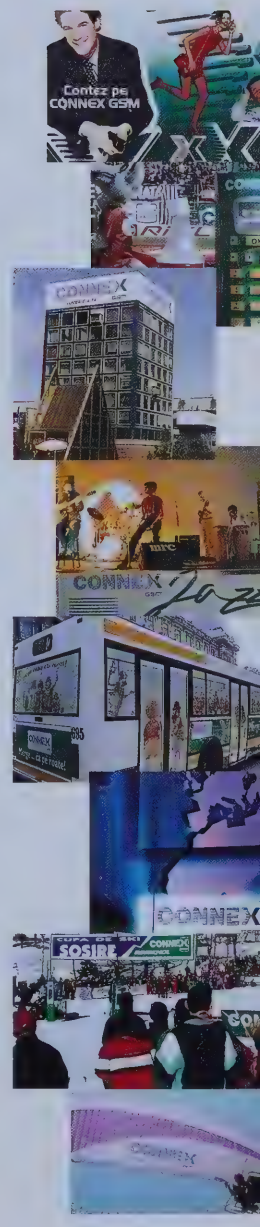
Strong Performance MobiFon's impressive subscriber growth is matched by its strong financial performance. The company generated its first positive monthly EBITDA in June 1998 and was EBITDA positive for the year as a whole.

Throughout 1998, the company maintained a high level of average revenue per subscriber while nearly tripling its subscriber base.

MobiFon's financial performance is supported by significantly lower disconnection rates, or churn, than the European average. As well, the company has kept bad debt to a minimum through rigorous credit standards, supported by the launch of pre-paid services in November 1997. Unlike many countries, however, most of MobiFon's customers subscribe to post-paid services.

Positioned for Sustained Growth Romania, the second largest country in Eastern Europe in terms of population, with 23 million people, is one of the region's most underpenetrated telecommunications markets. These factors and a favourable regulatory environment attracted TIW to Romania, culminating in the award of a 10-year license in November 1996. MobiFon has since entered into an agreement to extend this license to 15 years.

In January 1999, MobiFon closed a financing to fully fund the balance of its network buildout. By the end of the year, the company expects to reach 92% population coverage and 67% of the territory.



1999 Objective

TIW has built a world-class cellular operation in Romania and a strong organization under MobiFon. The company's objective in 1999 is to leverage its leadership position and excellence in customer service to achieve superior financial performance.

Asia *Cellular*

TIW has cellular operations in China and India, markets with significant long-term potential for mobile communications services. In both countries, the Company is aligning business plans and the timing of network buildout to expectations of subscriber growth and favourable developments in the regulatory environment.

China TIW operates in the Province of Hunan, covering a population of 64 million. Commercial services are offered in Changsha, the capital city, with 8,700 subscribers at the end of 1998. TIW's investee was near EBITDA break-even in 1998.

Engineering has been completed for extending the network in Changsha and the two other major cities forming the Golden Triangle, and negotiations for vendor selection are underway. The decision to proceed will be based on the favourable outcome of negotiations with Chinese authorities regarding outstanding regulatory issues.

India TIW holds a cellular license for the State of Rajasthan, which has a population of 49 million. Commercial services began in Jaipur, the capital, in 1997 and network coverage was extended to four other large cities. In 1998, operations were near EBITDA break-even, before license fees.

Major expansion of services is not expected in 1999. There were 9,000 subscribers at the end of 1998 and existing network capacity is sufficient to meet short-term anticipated subscriber growth. Future investment in infrastructure will be in step with the evolution of existing business, telecommunication industry reform and prospects for future growth.

Paging

TIW's paging operations in Mexico and The Netherlands totaled 183,300 subscribers at the end of 1998. On a combined basis, the two operations were EBITDA positive.

Mexico TIW's investee is the third largest paging operator in the country with 112,500 subscribers at the end of 1998. It provides services in all cities with populations over 100,000 people, the widest territorial coverage in Mexico. In early 1999, it obtained a digital license for two-way services.

The Netherlands TIW increased its ownership to 100% of CallMax bv, and appointed a new management team with a mission to focus on business users. The operation is being reoriented from its original emphasis on the consumer market, to services based on fixed monthly fees for the business market. There were 70,800 active subscribers at the end of 1998.

Management's discussion and analysis is intended to assist in the understanding and assessment of significant changes and trends related to the results of operations and financial condition of Telesystem International Wireless Inc., together with its subsidiaries and other investees (collectively, the "Company" or "TIW"). This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes. All references to "dollars" and "$" refer to U.S. dollars, unless otherwise stated.

Overview

The Company develops, acquires and operates wireless telecommunications networks and provides telecommunications services, including cellular telephony, specialized mobile radio ("SMR") and paging, in both developing and developed markets throughout the world. Since its inception in 1992, the Company has experienced significant growth and as at December 31, 1998, its operations had 1.56 million subscribers. The Company's licenses entitle it to serve geographical areas that include 515.0 million population equivalents ("POPs"). As a part of its development strategy, the Company selectively considers strategic opportunities in the wireless telecommunications industry on an ongoing basis, especially in those markets where it is already present.

Operations — The Company's ownership interests in cellular operations include: (i) a 9.4% indirect interest in Telemig Celular Participações S.A. ("Telemig"), which has an 82.9% interest in Telemig Celular S.A., which has a license to provide A-Band cellular services in the State of Minas Gerais, Brazil; (ii) a 9.4% indirect interest in Tele Norte Celular Participações S.A. ("Tele Norte"), which has interests ranging between 66.8% and 90.6% in five Brazilian companies, which collectively have a license to provide A-Band cellular services in five northern states of Brazil; (iii) a 16.0% interest in Americel S.A. ("Americel"), which has a license to provide B-Band cellular services in the Center-West region of Brazil; (iv) a 16.0% interest in Telet S.A. ("Telet"), which has a license to provide B-Band cellular services in the State of Rio Grande do Sul, Brazil; (v) a 62.0% interest in MobiFon S.A. ("MobiFon"), which has a license to provide Global System for Mobile Communications ("GSM")-based cellular services nationally in Romania; (vi) a 49.0% interest in Hunan Huajia Telecommunication Engineering Corporation Ltd. ("Hunan Huajia"), a cooperative joint-venture which has the right to provide telecommunications services in the Province of Hunan, China; and (vii) a 33.5% interest in Hexacom India Limited ("Hexacom"), which has a license to provide GSM-based cellular services in the State of Rajasthan, India. The Company's initial investments in China, India and Romania were made in December 1995, April 1996 and November 1996, respectively. The Company's initial investments in Brazil were made in July 1997 in the Center-West region, in April 1998 in the State of Rio Grande do Sul, and in July 1998 in both the State of Minas Gerais and the northern region of Brazil. Commercial operations were launched in Minas Gerais in April 1993, in the northern region of Brazil in April 1994, in Romania in April 1997, in India in June 1997, in the Center-West region of Brazil in December 1997 and in the State of Rio Grande do Sul in February 1999. In China, the Company has been providing limited commercial service in the city of Changsha since May 1997. The launch of full commercial service in Changsha and its neighbouring cities is subject to the resolution of regulatory issues relating to the telecommunications environment.

The Company's initial investments in SMR operations began in 1992 when it acquired minority interests in regional network operators in the south of France. Since that time, the Company has acquired additional SMR operations in the United Kingdom, France, Germany, Spain, Portugal and

Belgium. In February 1998, the Company acquired 100% of National Band Three Limited ("NB3") in the United Kingdom and 100% of Terrafon Bündelfunk ("Terrafon") in Germany. In June 1998 and September 1998, the Company acquired the SMR operations of France Telecom and Bouygues, respectively. In July 1998, it acquired 100% of Protocall Ventures Ltd., which holds a 65% interest in a Portuguese SMR operator and a 93.8% interest in a Belgian SMR operator, and simultaneously increased its ownership in its Spanish affiliates to 100%. In December 1998, the Company increased its ownership interest in its German subsidiary, RegioKom Verwaltungsgesellschaft ("RegioKom"), from 62% to 100%. In February and March 1999, the Company acquired 100% of Chekker ProRegio Bündelfunk GmbH & Co., Deutschland KG ("Chekker") and 100% of Quickfunk GmbH ("Quickfunk"). The Company is the largest provider of SMR services in the European market with 202,400 subscribers as of December 31, 1998 (approximately 300,000 on a pro-forma basis after giving effect to the acquisitions of Chekker and Quickfunk). All of the Company's SMR operations are held through Dolphin Telecom plc ("Dolphin"), a subsidiary of the Company.

The Company's ownership interests in paging operations include: (i) a 49.0% interest in Enlaces Radiofonicos S.A. ("ERSA"), which has both national and regional paging concessions, allowing it to provide nationwide services in Mexico; and (ii) a 100% interest in CallMax bv ("CallMax"), which has a national paging license in the Netherlands. The Company's initial investments in ERSA and CallMax were both made in 1994, and commercial services were launched in 1973 and 1995, respectively.

Accounting Treatment — All financial data and discussion herein are based upon financial statements prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). For a discussion of the principal differences between Canadian GAAP and accounting principles generally accepted in the United States ("U.S. GAAP"), see Note 15 to the consolidated financial statements of the Company.

In accordance with Canadian GAAP, the Company consolidates revenues and expenses of each subsidiary in which it has a controlling interest. In this regard, the Company consolidates the results of MobiFon, Dolphin and CallMax. Investments which are jointly controlled are reported using the proportionate consolidation method. Under this method, the Company's proportionate share of the assets, liabilities, income and expenses of joint ventures are consolidated in its financial statements. In this regard, the Company proportionately consolidates the results of Telpart Participações S.A. ("Telpart", which fully consolidates the results of Telemig and Tele Norte, in each of which it has a 52% voting interest and a 19% equity interest), Americel, Telet (although it launched commercial operations only in February 1999), Hunan Huajia, Hexacom and ERSA. U.S. GAAP requires consolidation of subsidiaries controlled by the Company and the equity method of accounting for joint-ventures and investees in which it has significant influence, but not a controlling interest. Net income and shareholders' equity under either presentation are the same.

Composition of operating revenues and expenses — Until March 31, 1997, substantially all of the Company's revenues consisted of revenues generated by its analog SMR and paging operations. However, following the commercial launch of operations at MobiFon, in April 1997, revenues generated by cellular operations have become the primary source of revenue for the Company.

Operating revenues include cellular, analog SMR and paging service revenues, as well as equipment revenues. Cellular service revenues primarily consist of recurring fixed access charges, one-time

connection fees, variable air time charges and in-bound interconnection charges. Analog SMR and paging service revenues primarily consist of recurring fixed access charges. Digital SMR ("ESMR") services are planned for commercial launch in 1999 and revenues are expected to consist primarily of usage related voice and data transmission charges, interconnection charges, fees for alphanumeric short text messaging and other value added services. Equipment revenues consist of revenues from the sales and rental of handsets. Equipment sales are not fundamental to the Company's businesses. Rather, the Company generally offers handsets at cost, as an incentive for its customers to subscribe to its services.

The Company's operations are capital intensive and its operating costs are composed of significant fixed costs with relatively low variable costs that are a function of subscriber base. Accordingly, subscriber growth is critical to the improvement in operating margins and results of operations.

Operating expenses include: cost of revenues, selling, general and administrative expenses and depreciation and amortization expenses. Cost of revenues primarily consists of fixed costs such as leased line charges, recurring license and spectrum fees, site rental and network maintenance, including overhead, as well as variable costs such as cost of equipment sold, interconnection charges, and, in the case of paging services, wages and salaries of operators. Selling, general and administrative expenses primarily consist of salaries, wages, and related benefits for selling general and administrative personnel, advertising, promotional expenses, bad debt, and corporate, business development and other overhead expenses. Depreciation and amortization expenses consist primarily of depreciation recorded for the Company's cellular, SMR and paging networks, as well as amortization of intangibles such as wireless license costs, subscriber lists, and goodwill.

Results of operations

The following discussions compare the results of operations for: (i) the year ended December 31, 1998, to the year ended December 31, 1997; and (ii) the year ended December 31, 1997, to the year ended December 31, 1996.

Consolidated results of operations

For the years ended December 31,

(in thousands of dollars)	1998 $	1997 $	1996 $
Operating revenues	391,229	70,717	12,558
Total operating expenses	470,994	156,683	35,963
Operating loss	(79,765)	(85,966)	(23,405)
Interest expense	(107,455)	(21,099)	(1,064)
Interest income	31,689	10,437	2,705
Foreign exchange gain (loss)	6,235	(1,496)	(199)
Other	726	(83)	(203)
Income tax recovery (expense)	(9,525)	1,967	–
Non-controlling interest	(12,157)	14,137	277
Net loss	(170,252)	(82,103)	(21,889)

1998 compared to 1997 — The Company has a 49% voting and equity interest in Telpart, a joint venture established to acquire cellular operations in Brazil. On July 29, 1998, Telpart acquired, for R$944 million ($811.7 million), a 52% voting interest and a 19% equity interest in each of Telemig and Tele Norte. The purchase price is payable in three installments: the first installment of R$377.6 million ($324.7 million) was paid on August 4, 1998, and the remainder will be paid in Reais over the next two years. The Company proportionately consolidates the results of Telpart, which fully consolidates the results of both Telemig and Tele Norte. For the period from the date of acquisition to December 31, 1998, Telpart contributed $120.2 million, $32.5 million and $12.1 million to consolidated revenues, operating income and net loss, respectively.

Revenues increased to $391.2 million in 1998 from $70.7 million in 1997. The acquisition, in July 1998, of Telemig and Tele Norte and continued subscriber growth at MobiFon accounted for $120.2 million and $119.6 million, respectively, of this increase. The Company's SMR operations accounted for $59.0 million of this revenue increase, primarily due to the acquisitions of NB3, Terrafon and the SMR operations of France Telecom and Bouygues and the increase in the Company's ownership of RegioKom and FleetComm, all of which occurred in 1998. Most of the remaining increase resulted from growth at Americel, which launched commercial operations in December 1997.

Total operating expenses increased to $471.0 million in 1998 from $156.7 million in 1997. Selling, general and administrative expenses increased by $115.0 million primarily due to the effect of cellular and SMR acquisitions combined with increased marketing efforts at MobiFon and Americel. Cost of revenues increased by $96.6 million, comprised of a $73.8 million increase in cost of services and a $22.8 million increase in cost of equipment, both primarily attributable to growth at MobiFon and Americel combined with the acquisitions of cellular and SMR operations. Depreciation and amortization expense increased by $102.7 million due to the effect of cellular and SMR acquisitions and investments in capital assets at existing cellular operations.

Interest expense increased to $107.5 million in 1998 from $21.1 million in 1997. This increase was primarily due to accreted interest on the Company's 13¼% and 10½% Senior Discount Notes at the corporate level, accreted interest on Dolphin's 11⅝% and 11½% Senior Discount Notes, interest expense related to the Telemig and Tele Norte balance of purchase price and interest expense related to MobiFon's long-term loan facility, respectively.

Interest income increased to $31.7 million in 1998 from $10.4 million in 1997, primarily due to the temporary excess of cash attributable to the issuance of debt and equity securities.

Foreign currency exchange effects resulted in a gain of $6.2 million in 1998 compared to a loss of $1.5 million in 1997. This was mainly attributable to a gain on non-US dollar temporary cash balances, partially offset by a loss on working capital at MobiFon.

The income tax expense of $9.5 million in 1998 was primarily due to taxable income at the Brazilian A-Band operations. Substantial valuation allowances have been taken with regard to loss carry forwards of other operations. The Company had available as at December 31, 1998, net operating loss carry forwards of $283.3 million, of which $148.0 million have no expiration date. The Company may be limited in its ability to use the loss carry forwards in any one year due to the uncertainty of generating sufficient taxable income.

Negative non-controlling interest of $12.1 million in 1998 primarily represents the share of earnings of subsidiaries attributed to non-controlling interests at Telemig and Tele Norte. Positive non-controlling interest of $14.1 million in 1997 represents the share of losses of subsidiaries attributed to non-controlling interests.

As a result of the foregoing, net loss for the year ended December 31, 1998, was $170.3 million compared to $82.1 million in 1997. Net loss per share was $2.45 per share in 1998 compared to $1.41 per share in 1997, based on average shares outstanding of 69.6 million and 58.4 million, respectively.

1997 compared to 1996 — Revenues increased to $70.7 million in 1997 from $12.6 million in 1996. Of this increase, $43.7 million resulted from the commercial launch of the Company's cellular operations. The remaining increase resulted from continued growth in SMR and paging operations as well as increased holdings in several operations.

Total operating expenses increased to $156.7 million in 1997 from $36.0 million in 1996. Selling, general and administrative expenses increased by $60.6 million primarily due to the commercial launch of cellular operations. Cost of revenues increased by $45.6 million, comprised of a $27.1 million increase in cost of services and an $18.5 million increase in cost of equipment, both primarily attributable to cellular operations. Depreciation and amortization expense increased by $14.5 million as a result of investments in cellular capital assets.

Interest expense increased to $21.1 million in 1997 from $1.1 million in 1996. This increase was primarily due to accreted interest on the Company's 13¼% and 10½% Senior Discount Notes at the corporate level and interest expense related to MobiFon's long-term loan facility.

Interest income increased to $10.4 million in 1997 from $2.7 million in 1996, primarily due to the temporary excess of cash attributable to the issuance of debt and equity securities.

Foreign currency exchange effects resulted in a loss of $1.5 million in 1997 compared to $0.2 million in 1996. This was mainly attributable to the Romanian operations which are subject to foreign currency exchange effects on working capital.

The income tax recovery of $2.0 million in 1997 reflects the adoption of new income tax standards issued by the Canadian Institute of Chartered Accountants.

Non-controlling interest of $14.1 million in 1997 represents the share of losses of subsidiaries attributed to non-controlling interests.

As a result of the foregoing, net loss for the year ended December 31, 1997, was $82.1 million compared to $21.9 million in 1997. Net loss per share was $1.41 per share in 1997 compared to $0.73 per share in 1996, based on average shares outstanding of 58.4 million and 30.0 million, respectively.

Cellular operations

For the years ended December 31,

(in thousands of dollars)	1998 $	1997 $	1996 $
Revenues			
Services	265,202	28,929	–
Equipment	37,398	14,745	–
	302,600	43,674	–
Cost of services	80,453	23,790	–
Cost of equipment	36,983	15,818	–
Selling, general and administrative expenses	133,690	48,942	2,864
EBITDA	51,474	(44,876)	(2,864)
Depreciation and amortization	76,167	10,784	–
Operating loss	(24,693)	(55,660)	(2,864)

1998 compared to 1997 —| Revenues increased to $302.6 million in 1998 from $43.7 million in 1997. The Brazilian A-Band operations, Telemig and Tele Norte, which were acquired on July 29, 1998, accounted for $120.2 million of this revenue increase. The growth in the subscriber base in Romania to 325,300 in 1998 from 117,300 in 1997, and at Americel to 161,400 in 1998 from 15,600 in 1997, accounted for $119.6 million and $18.1 million, respectively, of this increase.

Cost of revenues increased to $117.4 million in 1998 from $39.6 million in 1997. This $77.8 million increase was substantially all due to the growth at MobiFon, the acquisition of Telemig and Tele Norte and the growth experienced at Americel.

Selling, general and administrative expenses increased to $133.7 million in 1998 from $48.9 million in 1997. The growth at MobiFon and Americel combined with the acquisition of Telemig and Tele Norte accounted for $43.2 million and $40.6 million of this increase, respectively.

Earnings (loss) before interest, taxes, depreciation and amortization ("EBITDA"), which corresponds to operating loss before depreciation and amortization, increased to $51.5 million in 1998 from negative EBITDA of $44.9 million in 1997. Substantially all of this increase was due to positive EBITDA contributions from Telemig and Tele Norte and MobiFon, the latter reflecting the achievement of a critical mass of subscribers and the first full year of operations.

Depreciation and amortization expenses increased to $76.2 million in 1998 from $10.8 million in 1997. Capital expenditures at MobiFon and Americel combined with the acquisition of Telemig and Tele Norte accounted for $37.3 million and $19.9 million of this increase, respectively.

As a result of the foregoing, operating loss decreased to $24.7 million in 1998 from $55.7 million in 1997.

1997 compared to 1996 —| The Company's cellular operations in Romania, India and Brazil launched commercial services in April, June and December 1997, respectively. Growth in the subscriber base, essentially in Romania, generated $43.7 million of revenues.

In 1997, the costs related to service revenues reached $23.8 million compared to revenues of $28.9 million. This limited margin over associated costs was expected in the initial months following commercial launch as a result of excess capacity. The cost of equipment slightly exceeded associated revenues, consistent with the Company's policy to sell equipment at cost to attract new customers.

Selling, general and administrative expenses increased to $48.9 million in 1997 from $2.9 million in 1996. This level of expenses was required to support the growth in the subscriber base and consisted of pre-operating expenses, launch costs and operational establishment costs.

Negative EBITDA increased to $44.9 million in 1997 from $2.9 million in 1996, primarily due to increased expenses related to the launch of commercial operations at MobiFon.

The Company began to amortize its network and license costs from the respective dates of the commercial launch of operations. This resulted in a depreciation and amortization expense of $10.8 million in 1997.

As a result of the foregoing, operating loss increased to $55.7 million in 1997 from $2.9 million in 1996.

SMR operations

For the years ended December 31,

(in thousands of dollars)	1998 $	1997 $	1996 $
Revenues			
Services	64,850	9,270	4,517
Equipment	6,108	2,674	1,305
	70,958	11,944	5,822
Cost of services	20,321	4,609	3,713
Cost of equipment	4,202	1,288	550
Selling, general and administrative expenses	45,165	9,576	7,382
EBITDA	1,270	(3,529)	(5,823)
Depreciation and amortization	40,546	5,074	2,076
Operating loss	(39,276)	(8,603)	(7,899)

1998 compared to 1997 — Revenues increased to $71.0 million in 1998 from $11.9 million in 1997, due to business acquisitions. The number of analog subscribers increased to 202,400 in 1998 from 52,800 in 1997, primarily reflecting the acquisitions of NB3 in the United Kingdom, Terrafon in Germany and the SMR operations of France Telecom and Bouygues.

The Company's ESMR services are planned for commercial launch in the United Kingdom in the second quarter of 1999, followed by limited commercial launches in France later in the year and in Germany in 2000. The Company expects contributions from its ESMR services to negatively impact operating income over the 1999-2000 period.

Cost of revenues increased to $24.5 million in 1998 from $5.9 million in 1997, largely as a result of the aforementioned acquisitions.

Selling, general and administrative expenses increased to $45.2 million in 1998 from $9.6 million in 1997, primarily due to the acquisitions made in 1998 as well as pre-operating expenses incurred in connection with the development of the Company's ESMR networks in the United Kingdom and France.

EBITDA increased to $1.3 million in 1998 from negative EBITDA of $3.5 million in 1997, primarily reflecting the effects of business acquisitions in 1998, offset in part by increased pre-operating expenses related to the development of ESMR networks in the United Kingdom and France.

Depreciation and amortization expense increased to $40.5 million in 1998 from $5.1 million in 1997, primarily as a result of the acquisitions made in 1998.

As a result of the foregoing, operating loss increased to $39.3 million in 1998 from $8.6 million in 1997.

1997 compared to 1996 —| Revenues increased to $11.9 million in 1997 from $5.8 million in 1996. The acquisition of joint control in RegioKom, a network operator in Germany, the acquisition of regional French network operators and increased holdings in the Company's French investments accounted for approximately $4.5 million of the increase. Existing operations, as of 1996, experienced a 28% increase in revenues, principally from internal growth.

Cost of revenues increased to $5.9 million in 1997 from $4.3 million in 1996. This increase in cost of revenues was relatively less than that of associated revenues due to economies of scale achieved through the 1997 acquisitions.

Selling, general and administrative expenses increased to $9.6 million in 1997 from $7.4 million in 1996. This increase resulted from higher selling expenses related to growth and an increase in pre-operating expenses related to ESMR projects.

Negative EBITDA decreased to $3.5 million in 1997 from $5.8 million in 1996, largely due to internal revenue growth and business acquisitions.

Depreciation and amortization increased to $5.1 million in 1997 from $2.1 million in 1996, as a result of the higher level of activities and acquisitions.

As a result of the foregoing, operating loss increased to $8.6 million in 1997 from $7.9 million in 1996.

Paging operations

For the years ended December 31,

(in thousands of dollars)	1998 $	1997 $	1996 $
Revenues			
Services	**15,186**	10,494	4,033
Equipment	**2,485**	4,605	2,703
	17,671	15,099	6,736
Cost of services	**6,149**	4,667	2,292
Cost of equipment	**2,899**	4,223	2,290
Selling, general and administrative expenses	**8,048**	13,601	4,943
EBITDA	**575**	(7,392)	(2,789)
Depreciation and amortization	**3,334**	1,613	1,097
Operating loss	**(2,759)**	(9,005)	(3,886)

1998 compared to 1997 — Revenues increased to $17.7 million from $15.1 million in 1997, primarily as a result of the increase in the Company's equity interest in ERSA to 49.0% and in CallMax to 60.0% in June and December 1997, respectively. In 1998, the Company became the sole owner of CallMax by acquiring the remaining 40.0% held by its partners.

Cost of revenues remained essentially flat as an increase in cost of services was almost entirely offset by a decrease in cost of equipment revenues, the latter as a result of a decrease in new subscriber additions.

Selling, general and administrative expenses decreased to $8.0 million in 1998 from $13.6 million in 1997, mostly as a result of a change in CallMax's customer focus, from the consumer market to business users (and services based on fixed monthly fees), and the corresponding reduction in promotional expenses required to address the new target market.

EBITDA increased to $0.6 million in 1998 from negative EBITDA of $7.4 million in 1997, primarily due to decreased selling, general and administrative expenses mostly as a result of the aforementioned change in CallMax's customer focus.

Depreciation and amortization expense increased to $3.3 million in 1998 from $1.6 million in 1997, primarily as a result of the Company's increased ownership in CallMax and ERSA.

As a result of the foregoing, operating loss decreased to $2.8 million in 1998 from $9.0 million in 1997.

1997 compared to 1996 — Revenues increased to $15.1 million in 1997 from $6.7 million in 1996, as a result of subscriber growth and the increase in the Company's ownership in both ERSA and CallMax.

Cost of revenues increased to $8.9 million in 1997 from $4.6 million in 1996, largely reflecting economies of scale resulting from subscriber growth.

Selling, general and administrative expenses increased to $13.6 million in 1997 from $4.9 million in 1996, resulting from both the increased holdings and from exceptionally high promotional expenses at CallMax.

Negative EBITDA increased to $7.4 million in 1997 from $2.8 million in 1996, primarily due to increases in the Company's ownership interests in both ERSA and CallMax combined with high promotional expenses incurred at CallMax.

Depreciation and amortization expenses increased to $1.6 million in 1997 from $1.1 million in 1996, mostly as a result of increases in holdings.

As a result of the foregoing, operating loss increased to $9.0 million in 1997 from $3.9 million in 1996.

Liquidity and capital resources

The following table is a summary of the consolidated cash flows of the Company for the years ended December 31, 1998, 1997 and 1996.

Cash flow data

For the years ended December 31,

(in thousands of dollars)	1998 $	1997 $	1996 $
Cash provided by (used in) operating activities	102,921	(28,114)	(24,694)
Cash used in investing activities	(692,252)	(262,705)	(127,252)
	(589,331)	(290,819)	(151,946)
Cash provided by financing activities	553,382	573,150	187,761
Net effect of exchange rate translation	1,465	(714)	(736)
Increase (decrease) in cash and cash equivalents	(34,484)	281,617	35,079
Cash and cash equivalents, beginning of period	329,854	48,237	13,158
Cash and cash equivalents, end of period	295,370	329,854	48,237

1998 compared to 1997 — Cash provided by operating activities in 1998 was $102.9 million compared to cash used in operating activities of $28.1 million in 1997. Of this increase, $108.9 million was attributable to an improvement in EBITDA. The remaining increase was due to favorable movements in non-cash working capital (primarily higher payables) and higher interest income on temporary cash balances, offset in part by higher cash interest and tax expenses.

Cash used in investing activities in 1998 was $692.3 million. Of this amount, $366.7 million relates to the acquisition of capital assets primarily by MobiFon, Dolphin and Americel, $126.2 million relates to the acquisitions of Teleming and Tele Norte, and $121.2 million relates to the acquisition of NB3 and increased ownership of RegioKom. Cash used in investing activities in 1997 was $262.7, of which $132.1 million and $85.7 million relate to the acquisitions of capital assets by MobiFon and Americel, respectively.

Cash provided by financing activities in 1998 was $553.4 million. Of this amount, $290.0 million relates to the net proceeds from the issuance of debt securities by Dolphin, $169.3 million relates to the net proceeds from a corporate public equity offering which resulted in the Company being listed on the Nasdaq, $79.0 million relates to the draw down on MobiFon's long-term loan facility and $39.2 million relates to increased borrowings under short-term loan facilities. Cash provided by financing activities in 1997 was $573.2 million. Of this amount, $288.2 million relates to the net proceeds from the issuance of debt securities at the corporate level, $118.5 million relates to the net proceeds from a corporate public equity offering in Canada and $111.0 million relates to the initial draw down on MobiFon's long-term loan facility.

1997 compared to 1996 —| Cash used in operating activities in 1997 was $28.1 million compared to $24.7 million in 1996, as lower EBITDA in 1998 was only partially offset by favorable movements in non-cash working capital (primarily higher payables).

Cash used in investing activities in 1997 was $262.7 million, of which $132.1 million and $85.7 million relate to the acquisitions of capital assets by MobiFon and Americel, respectively. Cash used in investing activities in 1996 was $127.3, most of which is related to the acquisition of the cellular license in Romania.

Cash provided by financing activities in 1997 was $573.2 million. Of this amount, $288.2 million relates to the net proceeds from the issuance of debt securities at the corporate level, $118.5 million relates to the net proceeds from a corporate public equity offering in Canada and $111.0 million relates to the initial draw down on MobiFon's long-term loan facility. Cash provided by financing activities in 1996 was $187.8 million, of which $184.7 million relates to proceeds from the private sales of equity securities.

Sources of financing —| At the corporate level, as of December 31, 1998, the Company had total short-term and long-term loans of $355.4 million, representing the accreted value of the 13¼% and 10½% Senior Discount Notes, and cash and cash equivalents of $29.3 million. The following is a summary discussion of financing activities conducted at the corporate level.

From inception to May 1997, substantially all of the Company's cash requirements were met by the proceeds from private sales of equity securities, which were made pursuant to subscription agreements entered into over the 1994 to 1996 period, and totaled $240.0 million.

In May 1997, the Company completed an initial public offering of 13,000,000 Subordinate Voting Shares at a price of Cdn. $13.50 per share. The proceeds from this issue were $118.5 million, net of issue costs in the amount of $7.6 million.

In June 1997, the Company issued 13¼% Senior Discount Notes with a nominal value of $380.0 million (the "13¼% Notes"). In October 1997, the Company issued 10½% Senior Discount Notes with a nominal value of $167.0 million (the "10½% Notes"). Total gross proceeds from these issues were $299.9 million, before issue costs in the amount of $11.8 million. Both the 13¼% Notes and the 10½% Notes are unsecured. The 13¼% Notes and the 10½% Notes are due June 30, 2007, and November 1, 2007, with cash interest payable semi-annually commencing December 31, 2002, and May 1, 2003, respectively.

In June and July 1998, the Company completed a public equity offering, which resulted in the Company being listed on the Nasdaq, issuing 7,899,094 Subordinate Voting Shares and 416,794 Multiple Voting Shares at prices of $21.35 per share and $21.50 per share, respectively. The proceeds from this issue were $169.3 million, net of issue costs in the amount of $8.3 million.

In July 1998, the Company entered into a senior secured revolving term credit facility with certain financial institutions, providing for aggregate borrowing capacity of $100.0 million (the "Corporate Credit Facility"). The Corporate Credit Facility, which expires in July 1999, may be extended for an additional six-month period providing certain covenants are met. All borrowings will mature 24 months thereafter. The Corporate Credit Facility is available in the form of loans or letters of credit bearing interest at an adjustable rate based on LIBOR or the U.S. base rate. The Corporate Credit Facility is secured by a pledge of the Company's equity interests in certain of its investees. The Company is subject to certain restrictive covenants, including restrictions on the ability to pay dividends. As at December 31, 1998, no amount had been drawn on this facility. The Corporate Credit Facility replaced a $35 million revolving bank credit facility that was terminated by the Company in April 1998.

In February 1999, the Company completed the issuance of Cdn. $150.0 million ($98.5 million) of 7.00% Equity Subordinated Debentures (the "Subordinated Debentures") due February 15, 2002, with cash interest payable semi-annually commencing August 1999. The net proceeds from the issuance of the Subordinated Debentures was Cdn. $145.7 million ($95.7 million). Each debenture will be convertible on maturity, at the option of the holder, into Subordinate Voting Shares of TIW. The Company has the option, in lieu of delivering shares upon conversion of the debentures, to pay the conversion value in cash. The Company also has the option to repay the principal amount at maturity by delivering Subordinate Voting Shares in lieu of cash.

At the operating company level, the Company seeks, where possible, to finance the cash requirements of developing and expanding its operations on a project-by-project basis. Although projects are typically financed by contributions of the Company and its partners in the form of equity and shareholder advances, the Company seeks to obtain third-party financing after the initial stages of a project's development. Sources of financing at the operating company level may include vendor financing provided by equipment suppliers, project financing from commercial banks and international financial institutions such as the EBRD, bank lines of credit and the sale of debt securities by the operating companies. The following is a summary discussion of the significant financing activities conducted at the operating company level.

In September 1997, the European Bank for Reconstruction and Development ("EBRD") arranged with other financial institutions a $190.0 million loan facility (the "EBRD Facility") for MobiFon. The EBRD Facility includes a $10.0 million subordinated loan bearing interest at 15% and maturing in 2003, a $70.0 million eight-year syndicated senior loan bearing interest at LIBOR plus 3.05% and nine-year senior loans totaling $110.0 million bearing interest at LIBOR plus 3.25%. MobiFon entered into agreements pursuant to which $167.2 million of this facility has effective fixed interest rates from 8.35% to 10.15% until April 2002. The EBRD Facility is collateralized by the Company's and certain of its partners shares in MobiFon, and by substantially all of the assets of Mobifon. As of December 31, 1998, this facility had been fully drawn.

In May 1998, Dolphin issued 11½% Senior Discount Notes and 11⅝% Senior Discount Notes with nominal values of $263 million and EURO 238 million ($264.7 million), respectively (collectively, the "Dolphin Notes"). Total gross proceeds from these issues were $300.5 million, before issue costs in the amount of $10.5 million. The Dolphin Notes are unsecured and due in June 2008, with cash interest payable semi-annually commencing December 2003.

In November 1998, Dolphin entered into a credit facility with certain financial institutions, providing for aggregate borrowing capacity of £215.0 million ($357.5 million) to finance the build-out of its ESMR network in the United Kingdom (the "United Kingdom Credit Facility"). This facility bears interest at LIBOR plus 2.75%, expires in June 2006 and is secured by Dolphin's assets in the United Kingdom. As at December 31, 1998, no amount had been drawn on this facility.

In December 1998, Americel entered into a long-term loan facility with the National Economic Development Bank (BNDES), Brazil's governmental agency that administers funds for economic and social development, providing for aggregate borrowing capacity of R$190 million ($158 million). This eight-year term loan facility will be used to finance equipment manufactured in Brazil and will replace existing short-term loan facilities. As at December 31, 1998, R$100 million ($83 million) had been drawn on this facility.

In January 1999, an international financial institution and the EBRD jointly arranged a $105.0 million second long-term loan facility (the "MobiFon Facility") for MobiFon. The MobiFon Facility is comprised of loans totaling $40.0 million and a $65.0 million syndicated export credit facility. The proceeds from this facility will allow MobiFon to complete the build-out of its cellular network in Romania and to pay $25 million to extend its 10-year license by five years to November 2011.

In February 1999, Telet obtained bridge financing from Ericsson for the full amount of a three year, R$170 million ($141 million) contract to purchase equipment, material, handsets, services and system implementation software. Ericsson also agreed to provide a working capital facility of up to $49 million to Telet.

The proceeds from these securities and bank facilities are used primarily to finance the Company's business combination activities, to acquire licenses and network equipment, to provide working capital, to service debt and to finance operating losses including corporate expenses and expenses incurred in seeking and evaluating new business opportunities.

Future capital requirements — Cash requirements of the Company's operating companies that exceed third-party financing are financed by way of capital contributions and loans from corporate and the other shareholders of such operations. At the corporate level, the Company's capital contributions to current operations and funding for corporate expenses totaled $442.3 million for the year ended December 31, 1998.

At the corporate level, the Company had a cash balance of $29.3 million as of December 31, 1998. The Company estimates that such cash balance, the Corporate Credit Facility and the net proceeds, received in February 1999, from the Subordinated Debenture offering will be sufficient to meet its share of its operations' anticipated funding requirements that exceed third party financing and its estimated corporate expenses into 2000.

The Company regularly evaluates opportunities for the expansion of its operations or for further investments in wireless telecommunications projects, including increases in ownership in its current operations. The future capital requirements related to such investment activities, if any, would be incremental to the anticipated capital contributions to existing operations, and therefore, additional corporate financing will be required to fund such development projects or to further support current operations.

The Company expects to have significant future capital requirements, particularly in relation to the construction and initial operation of its Western European ESMR networks, the expansion of its cellular operations and the servicing of its debt. The Company intends to fund such future capital requirements from cash flow from operating activities, existing credit facilities and through other externally generated funds such as the sale of debt and equity securities, vendor financing and project financing from commercial banks and international financial agencies.

TIW is a holding company with no material business operations, sources of income or operating assets of its own other than the shares of its subsidiaries and operating companies. The Company's cash flow and, consequently, its ability to meet its debt service obligations is dependent upon the payment of funds by the subsidiaries to TIW in the form of loans, dividends, advances or otherwise. Under certain of its long-term debt agreements, the Company is subject to certain financial and negative covenants, including restrictions on its ability to incur indebtedness, pay dividends, make certain other payments, create liens, sell assets and engage in mergers. Restrictions also exist on the ability of certain of the Company's subsidiaries and investees to transfer funds in the form of dividends, loans or otherwise to TIW.

Exchange rates

The Company reports its financial statements in U.S. dollars. The Company operates in fourteen different currency jurisdictions and all operations function in local currencies. Virtually all of the Company's revenues and a substantial portion of its operating expenses are in currencies other than its reporting currency. As a result, the Company is exposed to exchange rate risk. Any significant change in the relevant exchange rates, whether of a short-term nature or a steady, long-term change in relative valuation, could have a material effect on the Company's financial statements. In some developing countries, significant devaluations relative to the U.S. dollar have occurred in the past and may occur again in the future. For example, as at December 31, 1998, the exchange rate to the

Brazilian Real was $0.8278 for R$1.00 and as at March 4, 1999, it was $0.4808 for R$1.00, a devaluation of approximately 42%. In such circumstances, the Company will experience fluctuations in its results of operations solely as a result of exchange rate fluctuations.

Where possible, the Company adjusts its tariffs for the effects of inflation, one of the factors affecting relative exchange rates. However, the Company may be unable, due to regulatory restrictions and market conditions, to adjust its local tariffs in response to changes in the exchange rate relative to the Company's reporting currency and may therefore be unable to protect itself from currency exchange rate fluctuations.

The Company believes that, to some extent, the broad mix of currencies in which it conducts its businesses and the geographic spread of its operations provide some protection against exchange rate movements and reduces the overall sensitivity of the Company's results of operations to specific exchange rate fluctuations. The Company may elect to enter into hedging arrangements from time to time in the future, although it is not currently party to any such transaction and does not have a policy to systematically hedge against foreign currency exchange rate risks. At the operating company level, the Company seeks to reduce its foreign exchange exposure arising from transactions through a policy of matching, where possible, assets and liabilities. In some cases, the Company may borrow in U.S. dollars because it is either advantageous for the operating companies to incur debt obligations in such currency or because such currency denominated borrowings are the only funding source available to the operating company at the time. In such circumstances, it has decided to accept for the time being the inherent currency risk, principally because of the relatively high cost of buying, or the inability to buy, forward cover in currencies of the countries in which the Company operates.

Inflation

Inflation has not been a material factor affecting the Company's businesses to date. Although system equipment costs may increase over time as a result of inflation, the Company expects that the cost of subscriber equipment will decrease over time as volume increases, although there can be no assurance that this will be the case. General operating expenses such as salaries, employee benefits and lease costs are, however, subject to normal inflationary or deflationary pressures.

In certain countries, the effects of inflation may become significant to the Company's operations. Where permitted, and subject to competitive pressures, the Company intends to increase its tariffs to account for the effects of inflation. However, in those jurisdictions where tariff rates are regulated or specified in the license, such as in India, the Company may not be able to mitigate the impact of inflation on its operations.

Countries such as Romania and Mexico have experienced significant inflation in recent years. For example, for the three year period ended December 31, 1997, the cumulative inflation rate was 119% and 368% for Mexico and Romania, respectively. For accounting purposes, both of the Company's operations in Mexico and in Romania have been treated as highly inflationary. Consequently, the Company's reporting currency was used to translate these investments for the related periods. This did not have a material adverse effect on the results of operations for these periods.

Impact of the year 2000 issue

The Company relies on various computer software programs and operating systems across its entire organization, including applications used in providing telecommunication services, rendering invoices, processing customer orders, providing customer service, and facilitating various engineering and administrative functions. Similarly, certain of the Company's vendors and service providers (including banks relied on by certain operating companies for payment processing) and interconnected telecommunication network operators rely on computer software programs and operating systems that may be critical to the Company's operations.

In response to these issues, the Company has formulated a plan to ensure that the critical, date-sensitive systems and applications it relies on are year 2000 compliant prior to December 31, 1999. The Company's year 2000 plan addresses both information technology ("IT") and embedded technology systems, and consists of three distinct phases: (i) the assessment phase, in which the Company identifies the systems critical to its operations, which may be impacted by year 2000 issues; (ii) the remediation phase, in which the Company modifies or replaces non-compliant systems; and (iii) the implementation phase, in which the Company validates its modified systems in an operational environment to ensure year 2000 compliance and implements contingency plans to address system failures.

Having substantially completed the identification of its business critical systems, applications and related software subject to year 2000 risk, the Company is currently engaged in the remediation phase of its plan. As the Company purchases most of its software applications from third-party vendors, its remediation phase entails (i) enforcing representations and warranties received from certain vendors at the time of purchase that computer systems supplied are year 2000 compliant; (ii) implementing software modifications from certain vendors to correct the problem; and (iii) implementing the Company's plans (unrelated to the year 2000 issue) to update or replace certain systems before the year 2000. The Company believes it will be able to successfully complete the remediation phase, and finalize the implementation phase, for both its IT and embedded technology systems by September 30, 1999.

The Company relies in varying degrees on external business partners, such as third party vendors and service providers (including banks) and interconnected telecommunication network operators. For example, calls originating on the Company's networks that terminate on other networks may experience problems unless the other networks' systems are year 2000 compliant. The Company has begun to ascertain with external business partners about their progress in identifying and addressing the year 2000 issue. Once such information is collected, the Company will formulate contingency plans, such as the identification of alternative year 2000-compliant service providers. However, in most of the regions in which the Company provides telecommunication services, there is only one provider of basic telephony services and therefore the Company will not be able to select alternative year 2000-compliant service providers.

Although the Company's investigation of the year 2000 issue is not yet complete, based upon the foregoing, the Company does not currently expect that the costs of addressing the year 2000 issue in a timely manner will have a material impact on the Company's financial position or results of operations. The most reasonably likely worst case scenario of failure by the Company or its external business partners to resolve their year 2000 issues would be a temporary slowdown or cessation of its operations in one or more of the countries in which it is operating at the time of the failure.

The Company is in the process of developing contingency plans for its business critical systems in the event of such a year 2000 failure.

There can be no assurance that there will not be a delay in, or increased costs associated with, the implementation of required changes, which could have an adverse effect on future operations.

Forward-looking statements

In addition to historical information, this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements regarding events and financial trends which may affect the Company's future operating results and financial position. These forward-looking statements are based on current expectations, estimates and projections about the industries in which the Company operates, management's beliefs and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("future factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or anticipated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Future factors include, but are not limited to: technological developments and changes including the impact on capital spending from the deployment of new technologies and the risk that technologies will not be developed according to anticipated schedules or perform according to expectation; the ability to continue to introduce competitive services on a timely, costs effective basis; foreign governmental and public policy changes; the impact of modifications to or loss of licenses; and the impact of new business opportunities requiring significant up-front investments and continued availability of financing and financial resources in the amounts, at the times and on the terms required to support the Company's future business. In addition, such statements could be affected by general industry and market conditions and growth rates, general international economic conditions including interest rate and exchange rate fluctuations, and other future factors.

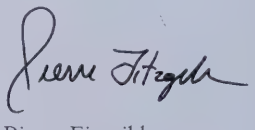
The management of the Company is responsible for the preparation and integrity of the financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of the Company, the results of its operations and the changes in its financial position. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

To fulfill its responsibility, management developed and maintains internal accounting controls and established policies and procedures designed to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to review by the external auditors during the examination of the financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Bruno Ducharme
President and chief executive officer



Pierre Fitzgibbon
Executive vice-president
and chief financial officer

To the Shareholders of Telesystem International Wireless Inc.:

We have audited the consolidated balance sheets of Telesystem International Wireless Inc. as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998, in accordance with accounting principles generally accepted in Canada.

Significant differences between Canadian and United States generally accepted accounting principles affecting the determination of shareholders' equity at December 31, 1998 and 1997, and the determination of net loss for each of the years in the three-year period ended December 31, 1998 are summarized in Note 15.

Montreal, Canada
March 5, 1999

Ernst & Young LLP

CHARTERED ACCOUNTANTS

Consolidated Balance Sheets

As at December 31, *(in thousands of U.S. dollars)*

	1998 $	1997 $
Assets		
Current assets		
Cash and cash equivalents	295,370	329,854
Trade debtors [net of allowance for bad debts of $28,096; 1997 - $3,420]	97,300	27,619
Inventories	17,688	8,742
Prepaid expenses	24,334	9,979
Other current assets [Note 3]	39,593	1,517
Total current assets	474,285	377,711
Investments [Note 3]	31,264	29,399
Capital assets [Note 4]	1,198,795	399,219
Goodwill [net of accumulated amortization of $9,457; 1997 - $1,036]	363,423	19,398
Future tax assets [Note 8]	20,906	–
Other non-current assets	56,327	19,734
	2,145,000	845,461
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans [Note 5]	42,760	3,546
Trade creditors	138,048	76,399
Accrued liabilities	141,111	6,986
Income tax payable	11,682	–
Deferred revenues	8,446	3,740
Current portion of long-term debt [Note 5]	143,681	14,598
Total current liabilities	485,728	105,269
Long-term debt [Note 5]	1,080,678	465,780
Future tax liabilities [Note 8]	58,686	8,830
Non-controlling interest	302,931	40,029
Shareholders' equity		
Share capital [Note 6]	527,853	358,506
Deficit	(295,391)	(125,139)
Cumulative translation adjustment	(15,485)	(7,814)
Total shareholders' equity	216,977	225,553
	2,145,000	845,461

Commitments and contingencies [Note 11]
Subsequent events [Note 14]
See accompanying notes

On behalf of the Board,

Charles Sirois
DIRECTOR

George Fierheller
DIRECTOR

Consolidated Statements of Loss and Deficit

For the years ended December 31, *(in thousands of U.S. dollars, except per share data)*

	1998 $	1997 $	1996 $
Revenues			
Services	**345,238**	48,693	8,550
Equipment	**45,991**	22,024	4,008
	391,229	70,717	12,558
Cost of services	**106,923**	33,066	6,005
Cost of equipment	**44,084**	21,329	2,840
Selling, general and administrative expenses	**199,539**	84,569	23,945
Depreciation and amortization [Note 7]	**120,448**	17,719	3,173
Operating loss	**(79,765)**	(85,966)	(23,405)
Interest expense [Note 7]	**(107,455)**	(21,099)	(1,064)
Interest income	**31,689**	10,437	2,705
Foreign exchange gain (loss)	**6,235**	(1,496)	(199)
Other	**726**	(83)	(203)
Loss before income taxes and non-controlling interest	**(148,570)**	(98,207)	(22,166)
Income taxes [Note 8]	**(9,525)**	1,967	–
Loss before non-controlling interest	**(158,095)**	(96,240)	(22,166)
Non-controlling interest	**(12,157)**	14,137	277
Net loss	**(170,252)**	(82,103)	(21,889)
Deficit, beginning of year	**(125,139)**	(43,036)	(21,147)
Deficit, end of year	**(295,391)**	(125,139)	(43,036)
Basic and fully diluted net loss per share	**(2.45)**	(1.41)	(0.73)

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31, *(in thousands of U.S. dollars)*

	1998 $	1997 $	1996 $
Operating activities			
Net loss	(170,252)	(82,103)	(21,889)
Depreciation and amortization	120,448	17,719	3,173
Amortization of deferred financing costs	2,651	463	–
Accreted interest on long-term debt	73,044	15,281	–
Non-controlling interest	12,157	(14,137)	(277)
Other non-cash items	(360)	(1,884)	203
Changes in operating assets and liabilities [Note 9]	65,233	36,547	(5,904)
Cash provided by (used in) operating activities	102,921	(28,114)	(24,694)
Investing activities [Note 9]			
Acquisitions of capital assets	(366,691)	(225,479)	(110,163)
Business acquisitions, net of cash acquired [Note 3]			
Telemig and Tele Norte	(126,159)	–	–
NB3 and RegioKom	(121,216)	(19,200)	–
Other	(37,799)	(12,253)	–
Other investments and advances	(33,465)	(7,722)	(10,893)
Proceeds on issuance of investee's shares	7,549	–	–
Decrease (increase) in other non-current assets	(14,471)	1,949	(6,196)
Cash used in investing activities	(692,252)	(262,705)	(127,252)
Financing activities [Note 9]			
Increase (decrease) in short-term loans	39,214	3,359	(2,391)
Proceeds from shares issued, net of issue costs	169,347	118,506	184,686
Proceeds from shares issued to non-controlling interest	19,368	38,755	2,514
Proceeds from Senior Discount Notes issued, net of issue costs	289,991	288,165	–
Borrowings under EBRD Facility	79,000	111,000	–
Increase (decrease) in other long-term debt	(43,538)	13,365	2,952
Cash provided by financing activities	553,382	573,150	187,761
Net effect of exchange rate translation on cash and cash equivalents	1,465	(714)	(736)
Increase (decrease) in cash and cash equivalents for the year	(34,484)	281,617	35,079
Cash and cash equivalents, beginning of year	329,854	48,237	13,158
Cash and cash equivalents, end of year	295,370	329,854	48,237

See accompanying notes

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of business — The Company, either directly or indirectly, develops, aquires and operates wireless telecommunications networks in several countries in Europe, Asia and Latin America. The Company currently has cellular operations in Brazil, China, India and Romania, specialized mobile radio ["SMR"] operations in France, Germany, Spain, Portugal, Belgium and the United Kingdom and paging operations in Mexico and the Netherlands. In 1998, the Company began the build-out of a digital SMR network in the United Kingdom and plans to develop similar networks in other Western European countries over the next several years.

The Company expects to have significant future capital requirements, particularly in relation to the construction and initial operation of Western European digital SMR networks, the expansion of its cellular operations and the servicing of its debt. The Company intends to finance such future capital requirements from cash flow from operating activities, borrowing under its existing credit facilities and through other externally generated funds such as the sale of debt and equity securities, vendor financing and project financing from commercial banks and international financial agencies. The ability to generate sufficient short-term and long-term capital in the future is dependent upon many factors, including, financial market conditions and general economic conditions in the countries where the Company conducts its principal operations. The Company's future performance may also be affected by other factors such as government actions relating to its licenses, local taxes and foreign exchange.

Basis of presentation — The Company was incorporated on September 9, 1996 under the Canada Business Corporations Act. On March 11, 1997, the Company issued 100 common shares for a cash consideration of $100. On May 9, 1997, pursuant to a Securities Assignment and Exchange Agreement with all existing shareholders of Telesystem International Wireless Corporation N.V. ["TIWC"], a company subject to common control, the Company issued 48,742,187 Subordinate Voting Shares and 3,257,813 Multiple Voting Shares in exchange for a 100% direct and indirect equity ownership in TIWC. The 100 previously issued and outstanding common shares of the Company were cancelled. This reorganization was accounted for under the continuity of interests method, a method similar to the pooling of interests. Accordingly, these consolidated financial statements reflect the results of operations and changes in cash flows as if the Company had always carried on the business of TIWC.

The continuity of the number of shares and related value in these financial statements reflects the attribution of the new capital structure adopted following the reorganization described above as though it had always existed, including the effect of actual share issuance. Certain classes of shares of TIWC included conversion terms based on the return on funds invested in equity. During 1997, these conversions occurred concurrently with the reorganization.

In the third quarter of 1998, the Company ceased being in the development stage and accordingly cumulative results of operations and cash flows since inception are no longer presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. As further described in Note 15, these accounting principles differ in certain respects from those that would have been followed had these financial statements been prepared in conformity with accounting principles generally accepted in the United States and related rules and regulations adopted by the United States Securities and Exchange Commission.

The preparation of financial statements by management in accordance with generally accepted accounting principles requires the selection of accounting policies from existing acceptable alternatives. The summary of significant accounting policies is as follows:

Investments — Investments over which the Company has control are consolidated. Investments which are jointly controlled are reported using the proportionate consolidation method. Under this method, the Company's proportionate share of the assets, liabilities, income and expenses of a joint-venture is consolidated in the Company's financial statements. Investments over which the Company has significant influence are accounted for using the equity method. Other investments are stated at cost.

Use of estimates — The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents — Cash equivalents consist of term deposits and highly liquid debt instruments purchased with a maturity of three months or less, and are considered to be cash equivalents for cash flow reporting purposes.

Inventories — Inventories consist of telecommunications equipment held for resale and are stated at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Capital assets — Capital assets are recorded at cost and are amortized over their estimated useful lives using the straight-line method over the following periods:

Buildings	20 years
Network equipment	3 to 10 years
Licenses	Up to 20 years
Subscriber lists	5 years
Other equipment	4 to 6 years
Leasehold improvements	Term of the lease

Goodwill — Goodwill, representing the excess of the cost of business acquisitions over the fair value of the identifiable net assets acquired, is amortized over a period of up to 20 years. On an ongoing basis, management evaluates the carrying value of goodwill for possible impairment. Such evaluation compares current and anticipated non-discounted cash flows from related operations to the unamortized goodwill balance, over its remaining life, and considers operating trends and other relevant factors.

Income taxes —| The Company follows the liability method in accounting for income taxes. Future tax balances reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts.

Foreign currency translation —| The US dollar is the Company's functional currency. Transactions arising in foreign currencies are translated into US dollars at the exchange rate at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange. The resulting translation gains or losses are recognized in the consolidated statements of loss except for exchange gains and losses resulting from translation of long-term monetary items which are deferred and amortized on a straight-line basis over the remaining term of the related item. Results of operations from self-sustaining subsidiaries and joint ventures which report in currencies other than US dollars are translated using the exchange rates at the transaction dates, while assets and liabilities are translated using the current rates at each balance sheet date. The resulting exchange gains or losses are accumulated in the cumulative translation adjustment account included as a component of shareholders' equity.

Results of operations from integrated subsidiaries which report in currencies other than US dollars are translated using the exchange rates at the transaction dates, while monetary assets and liabilities are translated at the year-end rates of exchange and non-monetary assets and liabilities are translated at historical exchange rates. The resulting exchange gains or losses are charged to income.

The financial statements of foreign entities in highly inflationary economies are re-measured, in all cases, using the US dollar as the functional currency. US dollar transactions are shown at their historical value. Monetary assets and liabilities denominated in local currencies are translated into US dollars at the prevailing year-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are charged to income.

Revenue recognition —| Revenues from air time, interconnection fees and access to networks, including those billed in advance, are recognized when services are provided. Revenues from connection fees which exceed direct connection costs are amortized over the estimated effective contract life. Other revenues from connection fees are recognized when the customer is connected to the network. Revenues from sales of equipment are recognized upon shipment.

Financing costs —| Share issue costs are recorded as a reduction of the related share capital. Debt issue costs are included in other non-current assets and amortized over the life of the debt to which they relate.

Earnings per share —| Basic earnings (net loss) per share is calculated using the weighted average number of voting shares outstanding during the year. Fully diluted earnings (net loss) per share is calculated taking into consideration the effect of the exercise of options which have a dilutive effect.

3. INVESTMENTS

a) Investments consist of the following:

As at December 31,

	1998 $	1997 $
Investment in shares, at cost	–	973
Unsecured advances to third parties	34,210	23,430
Pledged deposits	22,928	–
Loans and advances to joint ventures	5,726	4,996
	62,864	29,399
Less current maturities included in other current assets	31,600	–
	31,264	29,399

b) Proportionately consolidated investees:

Assets, liabilities, income and expenses related to the Company's interests in proportionately consolidated investees are as follows:

For the years ended December 31,

	1998 $	1997 $	1996 $
Revenues	153,543	22,856	11,597
Operating income (loss)	13,817	(9,677)	(7,468)
Net loss	(33,433)	(4,115)	(8,928)
Cash flows provided by (used in):			
Operating activities	78,231	(4,937)	(4,951)
Investing activities	(51,029)	(79,924)	(25,200)
Financing activities	39,661	66,805	24,813

As at December 31,

	1998 $	1997 $	1996 $
Current assets	144,719	22,074	8,797
Long-term assets	846,443	169,357	48,117
Current liabilities	315,378	38,111	15,515
Long-term liabilities	434,062	42,152	6,610

c) **Business acquisitions:**

In 1997 and 1998, the Company directly or indirectly acquired or increased its interest in several existing businesses. The purchase method has been used to account for these acquisitions and the results of the operations from the date of acquisition have been accounted for using the equity, proportionate consolidation or full consolidation basis of accounting, depending on the nature of the interest acquired. Business acquisitions by segment are summarized as follows:

Cellular

The Company has a 49% voting and equity interest in Telpart Participações S.A. ["Telpart"], a joint-venture established to acquire cellular operations in Brazil. On July 29, 1998, Telpart acquired, for R$944 million [$811.7 million], a 52% voting interest and a 19% equity interest in each of Telemig Celular Participações S.A. ["Telemig"] and Tele Norte Celular Participações S.A. ["Tele Norte"]. The purchase price is payable in three installments: the first installment of R$377.6 million [$324.7 million] was paid on August 4, 1998 and the remainder will be paid in Reais over the next two years. Telemig and Tele Norte operate, through their subsidiaries, cellular telecommunications networks in the State of Minas Gerais and in five northern states of Brazil.

The Company's proportionate interest in Telpart's allocation of the purchase price of the above acquisitions to the net assets acquired is summarized as follows:

	$
Purchase price, including acquisition costs	401,425
Cash	36,613
Other assets	382,990
Liabilities	(129,569)
Non-controlling interest	(213,920)
Fair value of identifiable net assets acquired	76,114
Goodwill [to be amortized over 20 years]	325,311

Telemig and Tele Norte participate in a multi-employer defined benefit pension plan and other post-retirement benefit plans. There is insufficient information available to determine their share of the related liabilities and therefore, these unfunded liabilities, if any, have not been recorded as part of the purchase equation.

In addition, during 1998, the Company's interest in its joint-venture, Americel S.A. was reduced from 19% to 16% following the issuance by Americel S.A. of treasury stock to a third party for a cash consideration of which the Company's proportionate share was $7.5 million. A dilution gain of $0.7 million resulted from this transaction.

SMR

In February 1998, the Company acquired 100% of the outstanding shares of National Band Three Limited ["NB3"], a United Kingdom SMR network operator, for a cash consideration, including acquisition costs, of $85.7 million.

In January 1997, the Company acquired a 25% equity interest in RegioKom Verwaltungsgesellschaft mbH ["RegioKom"], a German multi-regional SMR network operator for a cash consideration, including acquisition costs, of $12.9 million. In May 1997, the Company increased its equity interest to 33% for a cash consideration, including acquisition costs, of $6.3 million and acquired joint control. No goodwill resulted from these transactions. In January and February 1998, the Company

increased its ownership interest in RegioKom to 62% through capital contributions of $30.6 million and, in December 1998, the Company acquired the remaining non-controlling interest for a cash consideration of $36.1 million together with a contingent consideration consisting of a fixed number of treasury shares of the Company's subsidiary, Dolphin Telecom plc., representing approximately 3.7% of its equity as at December 31, 1998. Such contingent consideration has not been included in the purchase equation. The conditions were satisfied in March 1999 and the shares then were issued.

The allocation of the purchase price to the net assets acquired of the above 1998 SMR acquisitions are summarized as follows:

	NB3 $	RegioKom $
Purchase price, including acquisition costs	85,734	66,772
Cash	4,387	26,903
Other assets	110,179	49,531
Liabilities	(35,725)	(25,771)
Fair value of identifiable net assets acquired	78,841	50,663
Goodwill [to be amortized over 20 years]	6,893	16,109

During 1998 and 1997, the Company acquired or increased its interest in several other businesses which operate SMR networks in France, United Kingdom, Germany, Belgium, Spain and Portugal for an aggregate cash consideration of $32.1 million in 1998 and $5.8 million in 1997. Goodwill amounting to $22.8 million and $11.3 million in 1998 and 1997, respectively, has been accounted for as a result of these transactions.

Paging

In December 1997, the Company increased its equity interest in CallMax bv, a paging network operator in the Netherlands, from 50% to 60% for a cash consideration of $1 million. In April 1998, the Company acquired the remaining non-controlling interest for a cash consideration of $3.2 million.

In June 1997, the Company increased its equity interest in Enlaces Radiofónicos S.A., a Mexican paging network operator, from 35% to 49% for a cash consideration of $3.7 million. Goodwill amounting to $2 million has been accounted for as a result of this transaction.

4. CAPITAL ASSETS

As at December 31, 1998	COST $	ACCUMULATED DEPRECIATION $	NET BOOK VALUE $
Land and buildings	10,015	295	9,720
Network equipment	744,994	62,232	682,762
Licenses	392,495	39,275	353,220
Subscriber lists	57,381	8,998	48,383
Other equipment	73,032	18,685	54,347
Leasehold improvements	33,258	6,161	27,097
Equipment under capital leases	26,064	2,798	23,266
	1,337,239	138,444	1,198,795

As at December 31, 1997			
Land and buildings	894	68	826
Network equipment	163,357	7,925	155,432
Licenses	207,791	7,471	200,320
Subscriber lists	1,283	404	879
Other equipment	24,071	4,352	19,719
Leasehold improvements	15,272	441	14,831
Equipment under capital leases	9,446	2,234	7,212
	422,114	22,895	399,219

5. FINANCING ARRANGEMENTS

The Company's principal credit facilities consist of the following:

i) The Company has a $100 million corporate senior secured revolving term credit facility available for letters of credit and loans with terms of up to 24 months. The facility, which was undrawn as at December 31, 1998, expires in July 1999 and may be extended for an additional six-month period providing the Company meets certain covenants. Borrowings under the credit facility are collateralized by shares of certain investees and bear interest at an annual rate equal to the US base rate, plus 2.00% to 4.75%, or LIBOR plus 3.25% to 6.00%.

ii) The Company's subsidiary, Dolphin Telecommunications Limited, has a credit facility available of £215 million [$357.5 million]. This credit facility bears interest at LIBOR plus 2.75%, reducing if certain conditions are met, expires in June 2006 and is collateralized by the Company's SMR assets located in the United Kingdom. No amount was outstanding under this facility as at December 31, 1998.

iii) The Company's investees have various other operating credit facilities, some of which are collateralized by their trade debtors or other operating assets, bearing variable interest rates determined by local conditions. The aggregate amount of such facilities, including the Company's pro rata share of its joint ventures' credit facilities, is $65.7 million, of which $42.8 million was drawn as at December 31, 1998.

Long-term debt consists of the following:

As at December 31,	1998 $	1997 $
Series B 13¼% Corporate – Senior Discount Notes	242,530	213,332
Series C 10½% Corporate – Senior Discount Notes	112,845	101,868
	355,375	315,200
11½% Dolphin – Senior Discount Notes	160,500	–
11⅝% Dolphin – Senior Discount Notes [Euro 144,490]	169,544	–
Telpart - Balance of purchase price [R$277,536]	229,744	–
MobiFon S.A.– EBRD Facility	190,000	111,000
Brazilian license fees payable [R$38,012; 1997 – R$38,608]	31,466	34,597
Term loans of investees and others:		
Denominated in US$	35,339	–
Denominated in R$ [R$23,368; 1997 – R$8,552]	19,351	7,663
Denominated in other currencies	12,950	4,331
Obligations under capital leases	20,090	7,587
	1,224,359	480,378
Less current maturities	143,681	14,598
	1,080,678	465,780

Series B 13¼% Corporate - Senior Discount Notes — On June 27, 1997, the Company issued 13¼% Senior Discount Notes due on June 30, 2007, with a nominal value of $380 million for gross proceeds of $199.9 million, before issue costs in the amount of $8 million. The 13¼% Senior Discount Notes were sold at a substantial discount from their principal amount with cash interest not accruing prior to June 30, 2002. On March 12, 1998, the Company exchanged its 13¼% Senior Discount Notes for a like principal amount of Series B 13¼% Senior Discount Notes. The Series B 13¼% Senior Discount Notes, which have been registered under the U.S. Securities Act of 1993, have the same terms and conditions as the 13¼% Senior Discount Notes and are unsecured. Cash interest on the Series B 13¼% Senior Discount Notes is payable semi-annually at a rate of 13¼% per annum on each June 30 and December 31 commencing December 31, 2002.

The Company may redeem, until June 30, 2000, up to 35% of the principal amount at maturity of the Series B 13¼% Senior Discount Notes with the net proceeds of one or more sales by the Company of its capital stock at a price equal to 113.25% of their accreted value, as defined, provided that at least $247 million aggregate principal amount at maturity remains outstanding after each such

redemption. On or after June 30, 2002, the Company may redeem the Series B 13¼% Senior Discount Notes, in whole or in part, at any time, at redemption prices expressed as percentages of principal amount at maturity, declining from 106.625% on June 30, 2002 to 100% on June 30, 2005, plus accrued and unpaid cash interest, if any, to the redemption date.

Series C 10½% Corporate - Senior Discount Notes — On October 29, 1997, the Company issued 10½% Senior Discount Notes due on November 1, 2007, with a nominal value of $167 million for gross proceeds of $100 million, before issue costs in the amount of $3.8 million. The 10½% Senior Discount Notes were sold at a substantial discount from their principal amount with cash interest not accruing prior to November 1, 2002. On March 18, 1998, the Company exchanged 10½% Senior Discount Notes for a like principal amount of Series C 10½% Senior Discount Notes. The Series C 10½% Senior Discount Notes, which have been registered under the U.S. Securities Act of 1993, have the same terms and conditions as the 10½% Senior Discount Notes and are unsecured. Cash interest on the Series C 10½% Senior Discount Notes is payable semi-annually at a rate of 10½% per annum on each May 1 and November 1 commencing May 1, 2003.

The Company may redeem, until November 1, 2000, up to 35% of the principal amount at maturity of the Series C 10½% Senior Discount Notes with the net proceeds of one or more sales by the Company of its capital stock at a price equal to 110.50% of their accreted value, as defined, provided that at least $108.5 million aggregate principal amount at maturity remains outstanding after each such redemption. On or after November 1, 2002, the Company may redeem the Series C 10½% Senior Discount Notes, in whole or in part, at any time, at redemption prices expressed as percentages of principal amount at maturity, declining from 105.25% on November 1, 2002 to 100% on November 1, 2005, plus accrued and unpaid cash interest, if any, to the redemption date.

11½% Dolphin – Senior Discount Notes — On May 28, 1998, Dolphin Telecom plc ["Dolphin"], a subsidiary of the Company, issued 11½% Senior Discount Notes due on June 1, 2008, with a nominal value of $263 million for gross proceeds of $150.2 million, before issue costs in the amount of $5.3 million. The 11½% Senior Discount Notes, which are unsecured, were sold at a substantial discount from their principal amount and cash interest will not accrue prior to June 1, 2003. Cash interest on the 11½% Senior Discount Notes is payable semi-annually at a rate of 11½% per annum on each June 1 and December 1 commencing December 1, 2003.

Dolphin may redeem, until June 1, 2000, up to 35% of the principal amount at maturity of the 11½% Senior Discount Notes with the net proceeds of one or more sales by Dolphin of its capital stock at a price equal to 111.5% of their accreted value, as defined, provided that at least $170.9 million aggregate principal amount at maturity remains outstanding after each such redemption. On or after June 1, 2003, Dolphin may redeem the 11½% Senior Discount Notes, in whole or in part, at any time, at redemption prices expressed as percentages of principal amount at maturity, declining from 105.75% on June 1, 2003 to 100% on June 1, 2006, plus accrued and unpaid cash interest, if any, to the redemption date.

11⅝% Dolphin - Senior Discount Notes — On May 28, 1998, Dolphin Telecom issued 11⅝% Senior Discount Notes due on June 1, 2008, with a nominal value of EURO 238 million [$264.7 million] for gross proceeds of EURO 135.1 million [$150.3 million], before issue costs in the amount of $5.3 million. The 11⅝% Senior Discount Notes, which are unsecured, were sold at a substantial

discount from their principal amount and cash interest will not accrue prior to June 1, 2003. Cash interest on the 11⅝% Senior Discount Notes is payable semi-annually at a rate of 11⅝% per annum on each June 1 and December 1 commencing December 1, 2003.

Dolphin may redeem, until June 1, 2000, up to 35% of the principal amount at maturity of the 11⅝% Senior Discount Notes with the net proceeds of one or more sales by Dolphin of its capital stock at a price equal to 111.625% of their accreted value, as defined, provided that at least EURO 154.7 million [$181.5 million] aggregate principal amount at maturity remains outstanding after each such redemption. On or after June 1, 2003, Dolphin may redeem the 11⅝% Senior Discount Notes, in whole or in part, at any time, at redemption prices expressed as percentages of principal amount at maturity, declining from 105.813% on June 1, 2003 to 100% on June 1, 2006, plus accrued and unpaid cash interest, if any, to the redemption date.

Telpart - Balance of Purchase Price — The balance of purchase price relating to the acquisition of Telemig and Tele Norte is payable in two consecutive equal installments in August 1999 and 2000. The balance bears interest at a annual rate of 12% plus an adjustment for inflation based on the Central Bank of Brazil's IGP-DI Index and is collateralized by the shares of the acquired companies.

MobiFon S.A. - EBRD Facility — In September 1997, the European Bank for Reconstruction and Development ["EBRD"] arranged and partially financed a $190 million loan facility [the "EBRD Facility"] for MobiFon S.A., the Company's Romanian subsidiary. The EBRD Facility includes a $10 million subordinated loan bearing interest at 15% maturing in 2003, nine-year senior loans totaling $110 million bearing interest at LIBOR plus 3.25% and a $70 million eight-year syndicated senior loan bearing interest at LIBOR plus 3.05%. MobiFon S.A., entered into agreements, including interest rate swap agreements, pursuant to which $167.2 million of the above borrowings have effective fixed interest rates from 8.35% to 10.15% until April 2002. The effect of these interest rate swap agreements is that interest expense is based on the fixed interest rate on the portion of long-term debt equivalent to the notional amounts swapped. The EBRD Facility is secured by a pledge of the Company's and certain of the non-controlling interest's shares in MobiFon S.A., and by substantially all of the assets of MobiFon S.A.

Brazilian license fees payable — The Company's portion of the license fees payable to the Brazilian Ministry of Communications bears interest at 1% per month plus an adjustment for inflation based on the Central Bank of Brazil's IGP-DI Index and is repayable in three equal annual payments starting April 1999.

Covenants — Under the debt agreements and credit facilities described above, the Company is committed to respect certain financial and negative covenants including limitations on the ability to incur indebtedness, pay dividends, make certain other payments, create liens, sell assets and engage in mergers. Limitations also exist with respect to the ability of certain subsidiaries or investees to transfer funds in the form of dividends, loans or otherwise to the Company.

Minimum annual principal repayments of long-term debt during the next five years as at December 31, 1998 are as follows:

	$
1999	143,681
2000	148,758
2001	40,279
2002	40,946
2003	61,636

6. SHARE CAPITAL

Authorized — Unlimited number of Subordinate Voting Shares. Each share carries the right to cast one vote.

Unlimited number of Multiple Voting Shares. Each share carries the right to cast 8.0874 votes and is convertible, at the holder's option, into one Subordinate Voting Share. Conversion could also occur under other limited circumstances.

Unlimited number of non-voting Preferred Shares, issuable in series with rights and conditions as may be determined by the Board of Directors.

In the event of certain issuance of Voting Shares [other than Multiple or Subordinate issued upon the conversion of Multiple], the Company shall issue to holders of Multiple Voting Shares rights to subscribe for a number of Multiple Voting Shares which carry voting rights to maintain the percentage of voting rights prior to the issuance.

Issued — The issuance of shares prior to December 31, 1996, reflects the reorganization described in Note 1.

	MULTIPLE VOTING SHARES		SUBORDINATE VOTING SHARES		TOTAL	
	NUMBER	$	NUMBER	$	NUMBER	$
Balance December 31, 1995	100	–	28,674,349	55,312	28,674,449	55,312
Issuance of shares for cash	–	–	15,181,118	184,688	15,181,118	184,688
Balance December 31, 1996	100	–	43,855,467	240,000	43,855,567	240,000
Issuance of shares upon conversion	3,257,713	–	4,886,720	–	8,144,433	–
Issuance of shares for cash	–	–	13,000,000	118,506	13,000,000	118,506
Balance December 31, 1997	3,257,813	–	61,742,187	358,506	65,000,000	358,506
Issuance of shares for cash	416,794	9,006	7,899,094	160,341	8,315,888	169,347
Balance December 31, 1998	3,674,607	9,006	69,641,281	518,847	73,315,888	527,853

In May 1997, the Company issued 13,000,000 Subordinate Voting Shares at a price of Cdn. $13.50 per share for net proceeds of $118.5 million. In addition, 3,257,713 Multiple Voting Shares and 4,886,720 Subordinate Voting Shares were issued upon conversion of certain shares. These shares were issued for a nominal value in 1994 and were convertible based on the return on funds invested in equity. [see Note 1]. In June and July 1998, the Company issued a total of 7,899,094 Subordinate Voting Shares at a price of $21.35 per share and 416,794 Multiple Voting Shares at a price of Cdn. $31.50 [$21.50] for aggregate net proceeds of $169.3 million.

Stock Option Plans For Senior Executives, Key Employees and Directors — The Company has an Employee Stock Option Plan [the "Plan"], to issue up to 6 million Subordinate Voting Shares at the estimated market price on the date of grant. All of the options granted under the Plan may be exercised within a maximum period of seven years following the date of grant. Options may be exercised as follows: (i) on or after the second anniversary of the date of grant as to 25% of the optioned shares or any part thereof; (ii) on or after the third anniversary of the date of grant as to an additional 50% of the optioned shares or any part thereof; and (iii) on or after the fourth anniversary of the date of grant, as to the remaining 25% of the optioned shares or any part thereof.

The Company also has a stock option plan for directors of the Company [the "Directors Stock Option Plan"]. Directors who are eligible to receive options to purchase Subordinate Voting Shares under the Directors Stock Option Plan are members of the Board of Directors of the Company who are not officers or employees of the Company or of Telesystem Ltd. and its affiliates. The provisions of the Directors Stock Option Plan are identical in all material respects to the provisions of the Plan except that the maximum number of Subordinate Voting Shares that are issuable under the Directors Stock Option Plan will not exceed 400,000 Subordinate Voting Shares representing, together with the number of Subordinate Voting Shares issuable under the Plan, approximately 10% of the issued and outstanding shares.

The following is a summary of all options outstanding:

DATE OF GRANT	NUMBER OF OPTIONS	EXERCISE PRICE PER SHARE Cdn $	AGGREGATE IN THOUSANDS of Cdn $
Outstanding, December 31, 1996	–	–	–
Granted in 1997	622,932	13.50 to 22.75	11,151
Outstanding, December 31, 1997	622,932		11,151
Granted in 1998	1,160,435	17.75 to 32.90	31,554
Cancelled in 1998	(328,066)		(10,551)
Outstanding, December 31, 1998	1,455,301		32,154

In addition, a total of 117,936 options to purchase Subordinate Voting Shares under the Plan have been reserved for grant on certain dates throughout 1999 [395,805 in 1997 for 1998]. Those options will be granted at the market price of the Subordinate Voting Shares on such dates.

7. SUPPLEMENTARY INFORMATION ON CONSOLIDATED STATEMENTS OF LOSS

For the years ended December 31,

	1998 $	1997 $	1996 $
Depreciation and amortization			
Capital assets	112,061	17,315	3,129
Goodwill	8,387	404	44
	120,448	17,719	3,173
Interest on long-term debt	82,718	19,515	76
Other interest and financial charges	24,737	1,584	988
	107,455	21,099	1,064

8. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities are as follows:

As at December 31,

	1998 $	1997 $
Future tax liabilities		
Carrying value of assets in excess of their tax value	75,794	12,373
Future tax assets		
Loss carryforwards from foreign investees	107,051	46,665
Tax value of assets in excess of their carrying value and non-tax deductible accruals	35,697	1,255
Total future tax assets	142,748	47,920
Valuation allowance for future tax assets	(104,734)	(44,377)
Net future tax assets	38,014	3,543
Net future tax liabilities	37,780	8,830

As at December 31, 1998, the Company had net operating loss carryforwards which are available to reduce taxable income in future years, as follows:

	$
Losses expiring in:	
2000	50,153
2001	62,656
2002	3,066
2003	10,492
2004	8,883
2005	85
With no expiration	147,950
	283,285

Significant components of the provision for income taxes are as follows:

For the years ended December 31,

	1998 $	1997 $	1996 $
Current tax expense	(9,719)	–	–
Future income tax benefit relating to temporary differences	3,634	952	–
Future income tax (expense) benefit resulting from loss carryforwards	(3,440)	1,015	–
Income taxes	(9,525)	1,967	–

The reconciliation of income tax computed at the statutory Canadian tax rates with income tax expense is as follows:

For the years ended December 31,

	1998 $	1997 $	1996 $
Tax at statutory Canadian rates	56,500	37,200	8,425
Differences in effective rate attributable to income taxes of other countries	(2,900)	(3,467)	(1,050)
Tax effect of goodwill amortization not deductible for tax purposes	(2,768)	(133)	(15)
Valuation allowance	(60,357)	(31,633)	(7,360)
	(9,525)	1,967	–

9. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31,

	1998 $	1997 $	1996 $
Changes in operating assets and liabilities			
Trade debtors	(18,812)	(18,745)	(1,468)
Inventories	(7,293)	(5,211)	(4,255)
Prepaid expenses	(12,268)	(1,107)	(6,135)
Other current asset	(11,769)	(169)	(932)
Trade creditors	(21,638)	30,196	5,026
Accrued liabilities	133,395	29,803	1,352
Deferred revenues	3,618	1,780	508
	65,233	36,547	(5,904)
Significant non-cash investing and financing activities			
Balance of purchase price for the acquisitions of Telemig and Tele Norte (Note 3)	238,650	–	–
Balance of purchase price for the acquisitions of Brazilian licenses	40,625	30,900	–
Other cash flow information			
Interest paid	30,987	2,342	1,101
Income tax paid	24,134	–	–

During 1998, the Company adopted the new recommendations for cash flow statements and accordingly, cash flow information for 1997 and 1996 has been reclassified.

10. SEGMENTED INFORMATION

During 1998, the Company adopted the new recommendations for segmented information. The Company either directly or indirectly, owns telecommunications licenses and operates wireless telecommunications networks in several countries in Europe, Asia and Latin America. The Company has three reportable segments: cellular, SMR and paging. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on service revenues and earnings (loss) before interest, taxes, depreciation and amortization ["EBITDA"].

Information about the reportable segments' EBITDA, which is reconciled to operating loss, and carrying value of capital assets and goodwill is summarized as follows:

	CELLULAR $	SMR $	PAGING $	UNALLOCATED CORPORATE EXPENSES $	TOTAL $
For the year ended December 31, 1998					
Revenues					
Services	265,202	64,850	15,186	–	345,238
Equipment	37,398	6,108	2,485	–	45,991
	302,600	70,958	17,671	–	391,229
Cost of services	80,453	20,321	6,149	–	106,923
Cost of equipment	36,983	4,202	2,899	–	44,084
Selling, general and administrative expenses	133,690	45,165	8,048	12,636	199,539
EBITDA	51,474	1,270	575	(12,636)	40,683
Depreciation and amortization	76,167	40,546	3,334	401	120,448
Operating loss	(24,693)	(39,276)	(2,759)	(13,037)	(79,765)
Capital assets and goodwill as at December 31, 1998	1,143,516	401,452	15,687	1,563	1,562,218
For the year ended December 31, 1997					
Revenues					
Services	28,929	9,270	10,494	–	48,693
Equipment	14,745	2,674	4,605	–	22,024
	43,674	11,944	15,099	–	70,717
Cost of services	23,790	4,609	4,667	–	33,066
Cost of equipment	15,818	1,288	4,223	–	21,329
Selling, general and administrative expenses	48,942	9,576	13,601	12,450	84,569
EBITDA	(44,876)	(3,529)	(7,392)	(12,450)	(68,247)
Depreciation and amortization	10,784	5,074	1,613	248	17,719
Operating loss	(55,660)	(8,603)	(9,005)	(12,698)	(85,966)
Capital assets and goodwill as at December 31, 1997	322,971	71,794	22,947	905	418,617

	CELLULAR $	SMR $	PAGING $	UNALLOCATED CORPORATE EXPENSES $	TOTAL $
For the year ended December 31, 1996					
Revenues					
Services	–	4,517	4,033	–	8,550
Equipment	–	1,305	2,703	–	4,008
	–	5,822	6,736	–	12,558
Cost of services	–	3,713	2,292	–	6,005
Cost of equipment	–	550	2,290	–	2,840
Selling, general and administrative expenses	2,864	7,382	4,943	8,756	23,945
EBITDA	(2,864)	(5,823)	(2,789)	(8,756)	(20,232)
Depreciation and amortization	–	2,076	1,097	–	3,173
Operating loss	(2,864)	(7,899)	(3,886)	(8,756)	(23,405)
Capital assets and goodwill as at December 31, 1996	105,361	23,675	12,036	–	141,072

The Company operates in the following countries:

	1998		1997		1996	
	REVENUES $	CAPITAL ASSETS AND GOODWILL $	REVENUES $	CAPITAL ASSETS AND GOODWILL $	REVENUES $	CAPITAL ASSETS AND GOODWILL $
Brazil	140,016	789,144	1,734	90,322	–	–
Romania	160,838	330,843	41,211	202,383	–	79,554
United Kingdom, France, Germany, Spain, Belgium and Portugal	70,957	401,452	11,944	71,838	5,822	23,726
Others	19,418	40,779	15,828	54,074	6,736	37,792
	391,229	1,562,218	70,717	418,617	12,558	141,072

11. COMMITMENTS AND CONTINGENCIES

Commitments under long-term operating leases and supply contracts — The future minimum lease payments for the next 5 years including the Company's proportionate share of its joint ventures operating leases are as follows:

	$
1999	24,196
2000	13,260
2001	9,192
2002	7,441
2003	6,215
2004 and thereafter	3,037
Total	63,341

Rental expenses amounted to $13.9 million, $4.2 million and $0.5 million in 1998, 1997 and 1996, respectively. As at December 31, 1998, the Company's investees including the Company's proportionate share of joint-ventures had minimum commitments under supply and installation contracts of $69 million.

License agreements — The conditions to the various license agreements require the Company's investees to substantially meet the deployment plans set out in their license agreements and provide a reasonable level of services in their relative coverage areas. The government of India is currently reviewing its telecommunications policy, including the license fee structure and the Company expects it to announce a revised policy in 1999. Pending such announcement, the Company's investee in India has not paid in full its license fees and is exposed to penalties including the revocation of its license.

Pension plan and other post retirement benefits — Certain of the Company's investees have defined benefit pension plans, the related obligations and plan assets of which are not significant.

As discussed in Note 3c), Telemig and Tele Norte participate in a multi-employer defined benefit pension plan and other post-retirement benefit plans. These investees are contingently liable for the total unfunded projected benefit obligations of these plans. There is insufficient information available to determine the Company's portion of these unfunded obligations.

Taxes other than income taxes — Certain of the Company's investees are subject to taxes other than income taxes which are subject to claims and legal actions relating to interpretations. Provisions for these contingencies have been recorded where the amounts of probable loss can be estimated. Actual results could differ from such estimates.

12. FINANCIAL INSTRUMENTS

Fair Value — The carrying amounts of cash and cash equivalents, trade debtors and trade creditors and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

The carrying amounts of short-term loans and long-term debt other than the Senior Discount Notes approximate their fair values since their interest rates fluctuate with market interest rates or are similar to interest rates currently available to the Company. As at December 31, 1998, the fair value of interest rate swap and other agreements related to the EBRD Facility was a negative amount of approximately $5.5 million.

The fair value and the effective interest rate of the Senior Discount Notes as at December 31, 1998, were approximately $401 million and 19.4% respectively, as quoted on the over-the-counter market.

Credit Risk — The concentration of credit risk with respect to trade receivables is limited due to the composition of the customer base, which includes a large number of individuals and businesses. Cash and cash equivalents are contracted with a limited number of financial institutions. However, risk of losses is remote because the Company has a policy of only dealing with large, creditworthy financial institutions.

13. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. SUBSEQUENT EVENTS

In January 1999, the Company's subsidiary MobiFon S.A. closed a loan facility totaling $105 million, jointly arranged by an international financial institution and the EBRD. The facility comprises loans of $40 million and a $65 million syndicated export credit facility. Borrowings under the facility bear variable interest rates and are repayable in installments through 2006. The proceeds will be used by the subsidiary to complete the build-out of its cellular network in Romania and to pay $25 million to extend its license by five years to become a 15-year license.

On February 15, 1999, the Company completed the issuance of Cdn$150 million of 7% Equity Subordinated Debentures due February 15, 2002 for net cash proceeds of $95 million. Each debenture will be convertible on maturity, at the option of the holder, into Subordinate Voting Shares of the Company. The conversion entitlement allows holders to participate in the potential appreciation of the share price up to a maximum of Cdn$32.78 per share, being a maximum conversion value of Cdn$1,425 per Cdn$1,000 principal amount of Debentures. The Company has the option, in lieu of delivering Subordinate Voting Shares upon conversion of the Debentures, to pay the conversion value in cash. The Company also has the option to repay the principal amount at maturity by delivering Subordinate Voting Shares in lieu of cash.

The Company acquired 100% of Chekker ProRegio Bündelfunk GmbH & Co., Deutschland KG ["Chekker"] and 100% of Quickfunk GmbH ["Quickfunk"] on March 3 and February 4, 1999, respectively, for a total cash consideration of approximately $39 million. Both Chekker and Quickfunk are SMR network operators in Germany.

In January 1999, the Brazilian Real devaluated significantly against the US dollar. As at December 31, 1998, the exchange rate to Brazilian Real was $0.8278 for R$1 and as at March 4, 1999, it was $0.4808 for R$1. The devaluation of the Brazilian Real results in a reduction in the carrying value of the Company's Brazilian investees, which is partly compensated by the fact that debt financing and non-controlling interest of its Brazilian operations is largely denominated in Reais. The net reduction will be applied against shareholders' equity. Had such a reduction taken place as at December 31, 1998, the Company's shareholders' equity would have been reduced by approximately $90 million.

15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements were prepared in accordance with accounting principles generally accepted in Canada ["Canadian GAAP"]. The following material adjustments to the Company's financial statements would be required to conform with accounting principles generally accepted in the United States ["U.S. GAAP"]:

Reconciliation of consolidated statements of loss

For the years ended December 31,

		1998 $	1997 $	1996 $
	Net loss under Canadian GAAP	(170,252)	(82,103)	(21,889)
[a]	Expense related to convertible shares	–	(78,655)	–
[b]	Deferred foreign exchange losses on long-term debt	(8,790)	–	–
	Net loss under U.S. GAAP	(179,042)	(160,758)	(21,889)
[g]	Basic net loss per share under U.S. GAAP (in $)	(2.57)	(2.75)	(0.73)

Reconciliation of consolidated balance sheets

As at December 31,

	1998 CANADIAN GAAP $	1998 ADJUSTMENTS $	1998 U.S. GAAP $	1997 U.S. GAAP $
Assets				
Current assets				
Cash and cash equivalents	295,370	(75,789)	219,581	318,537
Trade debtors	97,300	(63,241)	34,059	17,320
Inventories	17,688	(4,852)	12,836	5,742
Amounts due from joint-ventures	–	13,691	13,691	3,739
Prepaid expenses	24,334	(3,081)	21,253	9,007
Other current assets	39,593	(11,447)	28,146	1,292
Total current assets	474,285	(144,719)	329,566	355,637
Investments	31,264	241,722	272,986	140,567
Capital assets	1,198,795	(517,318)	681,477	236,248
Goodwill	363,423	(304,869)	58,554	13,486
Future tax assets	20,906	(20,906)	–	–
Other non-current assets	56,327	(3,350) (8,790)[b]	44,187	19,260
Total assets	2,145,000	(758,230)	1,386,770	765,198
Liabilities and shareholders' equity				
Current liabilities				
Short-term loans	42,760	(34,683)	8,077	3,546
Trade creditors and accrued liabilities	290,841	(142,009)	148,832	59,973
Deferred revenues	8,446	(2,669)	5,777	767
Current portion of long-term debt	143,681	(136,017)	7,664	2,872
Total current liabilities	485,728	(315,378)	170,350	67,158
Long-term debt	1,080,678	(193,637)	887,041	432,458
Future tax liabilities	58,686	–	58,686	–
Non-controlling interest	302,931	(240,425)	62,506	40,029
Shareholders' equity	216,977	(8,790)[b]	208,187	225,553
Total liabilities and shareholders' equity	2,145,000	(758,230)	1,386,770	765,198

Except for item [b] which relates to unrealized gains and losses on foreign exchange, all of the adjustments to the balance sheet captions relate to the method used by the Company to account for its investments in joint-ventures as explained in [c].

Reconciliation of consolidated statements of cash flows

For the years ended December 31,

	1998 CANADIAN GAAP $	1998 ADJUSTMENTS $	1998 U.S. GAAP $	1997 U.S. GAAP $	1996 U.S. GAAP $
Cash provided by (used in):					
Operating activities	102,921	(78,231)	24,690	(50,219)	(19,743)
Investing activities	(692,252)	51,029	(641,223)	(186,639)	(102,052)
Financing activities	553,382	(39,661)	513,721	537,425	(162,948)
Net effect of exchange rate translation	1,465	2,391	3,856	(714)	(736)
Increase (decrease) in:					
Cash and cash equivalents	(34,484)	(64,472)	(98,956)	299,673	40,417

Except for the method of accounting for the Company's investments in joint-ventures as explained in [c], there are no differences between Canadian GAAP and U.S. GAAP which affect the cash flow captions indicated above.

[a] Convertible shares

Under U.S. GAAP, certain convertible shares issued to non-employees are recorded by analogy to APB 25, "Accounting for Stock Issued to Employees". Under these rules, shares that are convertible based on a conversion factor which depends upon the level of the annual internal rate of return on funds invested in equity, require that the excess, if any, of the estimated fair market value of the shares over their carrying value be recorded as an expense over the vesting period, when it becomes probable that they will be converted.

In 1997, an amount of $78.7 million was expensed for U.S. GAAP purposes, with a corresponding increase in additional paid-in capital. This transaction was a non-cash transaction with no effect on cash flows and total equity of the Company.

[b] Unrealized gains and losses on foreign exchange

Under Canadian GAAP, unrealized gains and losses arising from the translation of foreign monetary assets or liabilities that have a fixed or ascertainable life extending beyond the end of the following year are deferred and amortized over the term of the related item. Under U.S. GAAP, unrealized gains and losses arising from the translation of the Company's long-term debt would be included in income as they arise.

[c] Investments in joint-ventures

The Company accounts for investments in joint-ventures using the proportionate consolidation method. Under U.S. GAAP, such investments are accounted for using the equity method. This results in reclassifications of balance sheet captions which are illustrated in the balance sheet reconciliation as presented above. Such reclassification has no impact on net loss and shareholders' equity.

[d] Stock-based compensation

FAS 123 "Accounting for Stock-Based Compensation was issued by the FASB in 1996. However, the Company has elected to continue to measure its stock-based awards using the method prescribed by APB 25. Under this method, any compensation expense relating to the Company's stock options plans would have to be reflected over the vesting periods of these options. Options granted under variable plans require that the excess, if any, of the estimated fair market value of the shares over the exercise price of the option be recorded as compensation expense over the vesting period, whereas no such compensation is recorded under Canadian GAAP. In 1997 and 1998, as indicated in Note 6, the Company reserved, for the benefit of certain individuals, options to be granted within the following 12 months. These reserved options are considered to be granted under a variable plan for accounting purposes, however, the amount of additional compensation expense is not material.

[e] Supplementary information for U.S.GAAP purposes on stock-based compensation

Pro forma information regarding net income and earnings per share is required by FAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scoles option pricing model with the following weighted-average assumptions for 1998: risk-free interest rates of 6%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 17%; and a weighted-average expected life of the options to 5.0 years. There were no options outstanding prior to May 9, 1997.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because change in the subjective input assumptions can materially effect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net loss under U.S. GAAP would be increased by $2.3 million and $0.4 million for the years ended December 31, 1998 and 1997 respectively. Net loss per share would not be significantly affected.

[f] FAS 130 "Comprehensive Income"

The financial Accounting Standards Board has issued FAS 130 "Comprehensive Income" which establishes standards for reporting and display of comprehensive income (loss) and its components. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Under U.S. GAAP, all components of comprehensive income must be reported in the financial statements in the period in which they are recognized. A total amount for comprehensive income shall be displayed in the financial statements where the components of other comprehensive income are reported.

For the years ended December 31,

	1998 $	1997 $	1996 $
Net loss under U.S. GAAP	(179,042)	(160,758)	(21,889)
Foreign currency translation adjustment	(15,485)	(7,814)	76
Related income taxes	5,884	2,969	(29)
Other comprehensive income (loss)	(9,601)	(4,845)	47
Comprehensive loss under U.S. GAAP	(188,643)	(165,603)	(21,842)

[g] Net loss per share

Under U.S. GAAP, the net loss per share is determined pursuant to FAS 128 "Earnings per Share". The difference in the net loss per share reported under U.S. GAAP is solely due to the difference in the reported net loss.

The reconciliation of the numerator and denominator for the calculation of basic net loss per share is as follows:

For the years ended December 31,

	1998 $	1997 $	1996 $
Net loss under U.S. GAAP	(179,042)	(160,758)	(21,889)
Weighted average number of shares outstanding (in '000)	69,574	58,397	29,985
Basic net loss per share (in $)	(2.57)	(2.75)	(0.73)

The Company's diluted net loss per share is equivalent to its basic net loss per share since all of the Company's potentially issuable securities would have an anti-dilutive effect in 1998, 1997 and 1996.

[h] Pro forma impact of business combinations

Under U.S. GAAP, APB 16 requires disclosure of pro forma results of operations for the business combinations disclosed in Note 3 c). NB3 was acquired near the beginning of the year and the acquisitions other than Telemig and Tele Norte would not have had a material impact on the Company's revenues, net loss and net loss per share.

Telemig and Tele Norte resulted from the spin-off of certain businesses of a Brazilian public telecommunications service company. As such, prior to the date of the spin-off, complete results of operations were not available such that net income and earnings per share for these businesses are not available for 1997. Unaudited pro forma net loss and basic net loss per share under U.S. GAAP for the acquisitions, as if the businesses had been acquired as at January 1, 1998, would be $192.6 million and $2.76 respectively for the year ended December 31, 1998.

[i] Recent developments

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 will be effective for the Company's December 31, 2000 year-end and interim periods. The Company has not determined the impact, if any, on its consolidated financial statements arising from the eventual application of this standard.

In March 1998, the American Institute of Certified Public Accountants issued SOP 98-1: Statement of Position 98-1 ("SOP 98-1"), "Accounting for Costs of Computer Software Developed or Obtained for Internal Use", which provides guidance on accounting for such software costs and is effective for years beginning after December 5, 1998. SOP 98-1 identifies the characteristics of internal use software and provides examples to assist in determining when software is developed or obtained for internal use. Management is currently evaluating the impact of SOP 98-1 on its operating results under U.S. GAAP.

16. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the presentation adopted in 1998.

Five Year Review

(in thousands of U.S. dollars, except per share data)	1998	1997	1996	1995	1994
Revenues	391,229	70,717	12,558	7,032	3,021
Operating income (loss) before depreciation and amortization	40,683	(68,247)	(20,232)	(13,848)	(5,352)
Net loss	170,252	82,103	21,889	14,321	6,293
Net loss per share	2.45	1.41	0.73	0.50	2.31
Total assets	2,145,000	845,461	235,776	50,743	26,510
Long-term debt (net of current maturities)	1,080,678	465,780	3,959	1,509	1,930
Shareholders' equity	216,977	225,553	197,040	35,323	17,460

Quarterly Financial Data

(in thousands of U.S. dollars, except per share data)	FIRST	SECOND	THIRD	FOURTH	YEAR
1998					
Revenues	46,003	61,887	123,912	159,427	391,229
Operating income (loss) before depreciation and amortization	(11,812)	(5,796)	22,770	35,521	40,683
Net loss	34,458	30,757	32,200	72,837	170,252
Net loss per share	0.53	0.46	0.44	0.99	2.45
1997					
Revenues	3,919	11,156	19,641	36,001	70,717
Operating income (loss) before depreciation and amortization	(9,325)	(16,780)	(13,082)	(29,060)	(68,247)
Net loss	8,420	14,742	17,572	41,369	82,103
Net loss per share	0.19	0.25	0.27	0.64	1.41

Share Prices

	1998			1997		
Montreal and Toronto *(in Canadian dollars)*	HIGH	LOW	CLOSE	HIGH	LOW	CLOSE
Per Subordinate Voting Share						
First quarter	29.75	18.60	27.70	-	-	-
Second quarter	35.50	27.60	28.50	16.50	14.25	16.00
Third quarter	34.50	14.30	16.50	27.00	15.60	26.00
Fourth quarter	22.40	12.50	19.25	29.90	18.70	20.50
Nasdaq *(in U.S. dollars)*	HIGH	LOW	CLOSE	HIGH	LOW	CLOSE
Per Subordinate Voting Share						
First quarter	-	-	-	-	-	-
Second quarter	21.44	18.88	19.19	-	-	-
Third quarter	22.13	9.50	10.38	-	-	-
Fourth quarter	14.63	7.88	12.38	-	-	-

	DECEMBER 31, 1998
Number of Multiple Voting Shares	3,674,607
Number of outstanding Subordinate Voting Shares	69,641,281
Stock listing and symbol	
Montreal Exchange, Toronto Stock Exchange	TIW
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Director and Country Head for Canada
J. Henry Schroder & Co. Limited

George A. Fierheller,[1] ***Director***
President
Four Halls Inc.

Antoine Garrigues,[1] ***Director***
Director of Investments
Part'Com

David J. Kassie, ***Director***
Chairman of the Board
CIBC Wood Gundy Capital
Deputy Chairman
CIBC Wood Gundy Securities Inc

Pierre MacDonald,[2,3] ***Director***
Chairman of the Board
and Chief Executive Officer
MacD Consult Inc.

Carmand Normand,[1] ***Director***
Chairman of the Board and President
Addenda Capital Inc.

Donna Parr,[2] ***Director***
Portfolio Manager, Private placements
OMERS

Edward S. (Ted) Rogers, ***Director***
Chief Executive Officer
Rogers Communications Inc.
Chairman of the Board
Rogers Cantel Mobile Communications Inc.
and Rogers Cantel Mobile Inc.

Claude Séguin, ***Director***
Executive Vice-President, Finance
and Chief Financial Officer
Teleglobe Inc.

André Tremblay, ***Director***
President and Chief Executive Officer
Microcell Telecommunications Inc.

1 Member of the Audit Committee
2 Member of the Human Resources and Compensation Committee
3 Member of the Nominating and Corporate Governance Committee

Corporate Officers

Charles Sirois
Chairman of the Board

Bruno Ducharme
President and Chief Executive Officer

Mario Bertrand
President, New Ventures

Sven Borgström
Chief Technology Officer

Pierre Fitzgibbon
Executive Vice-President,
Chief Financial Officer
and President, Asia

André Gauthier
Vice-President, Finance

Jacques P. Langevin
Vice-President, Human Resources

Yves Marois
President, Europe

Margriet Zwarts
Vice-President, Legal Affairs
and Assistant Secretary

Operations Heads

Western Europe/Dolphin

Edward W. Beddoes
Chief Executive Officer Dolphin Telecom plc

Brazil

Marcio Kaiser
President and Chief Executive Officer,
Telemig Celular Participações S.A.
Tele Norte Celular Participações S.A.

Adalberto Vianna
President and Chief Executive Officer,
Americel S.A.

Marcos Torres
President and Chief Executive Officer,
Telet S.A.

Romania/MobiFon

Alexander Tolstoy
President and Chief Executive Officer,
MobiFon S.A.

Asia

Mathew Daniel
Chief Operating Officer,
Hexacom India Limited

Tim Barnett
President, Hunan Huajia Telecommunication
Engineering Corporation, Limited

Yan Bo
General Manager, Hunan Unicom

Paging

Michel Guay
Managing Director, CallMax bv

Manuel Galindo
General Manager, Enlaces Radiofónicos S.A. de C.V.

Investor Relations

Telesystem International Wireless Inc.
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16th Floor
Montreal, Quebec H3B 4W5
Canada
Telephone: (514) 673-8497
Fax: (514) 673-8470
www.tiw.ca

Transfer Agent and Registrar

The transfer agent and registrar for the Multiple Voting Shares and Subordinate Voting Shares in Canada, and the 7% Equity Subordinated Debentures, is Montreal Trust Company of Canada, at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montréal. The transfer agent and registrar for Subordinate Voting Shares in the United States is Bank of Nova Scotia Trust Company of New York, at its principal office in New York.

Trustee

The trustee for the 13¼% and 10½% Senior Discount Notes is Bank of Nova Scotia Trust Company of New York, at its principal office in New York.

Stock Exchange Listings

The Corporation's Subordinate Voting Shares are listed on the Montreal Exchange and the Toronto Stock Exchange under the symbol TIW, and on the Nasdaq Stock Market® under the symbol TIWI. The Corporation's Equity Subordinated Debentures are listed on the Montreal Exchange and the Toronto Stock Exhange under the symbol TIW.DB.

Securities Commission Filings

In addition to its annual report, the Corporation files a management proxy circular with the Canadian Securities Commissions. It also files a Form 20-F with the U.S. Securities and Exchange Commission and with the Canadian Securities Commissions.

Auditors

Ernst & Young L.L.P., *Chartered Accountants*
1 Place Ville-Marie
Suite 2400
Montréal, Québec H3B 3M9
Canada

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Telemig Celular is a trademark of Telemig Celular Participações S.A.

Pour obtenir un exemplaire de la version française du rapport annuel, veuillez communiquer avec le service des Relations avec les investisseurs.

Annual Meeting

The annual meeting of Telesystem International Wireless Inc. will be held at 2:00 p.m. on Thursday, May 13, 1999 at Le Windsor, 1170 Peel Street, Montreal, Quebec. Shareholders are invited to attend this meeting.

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